TRADE OF INDIA

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"Bear in mind that the commerce of India is the commerce of the world and he who can exclusively command it is the dictator of Europe."

—Peter the Great—

To

MY FATHER

FOREWORD

I have gone, with a good deal of interest, through the "TRADE OF INDIA" by Professor Palekar of the Podar College of Commerce. There is a fairly good number of books with regard to India's economic conditions, though I should say that, looking to the vast magnitude of India's trade, and importance of India's industries, and the momentous changes which have taken place in the economic conditions of India during the last few years, these few books do not at all meet the needs and requirements of the country. It is essentially necessary that there should be some books dealing comprehensively with the economic factors of the country, which, at the same time, should treat different questions, more or less, from the standpoint of student and be more suited to laymen than technical economists. Economics, in its various aspects, is now accepted as one of the principal courses of study for several examinations of the different Universities. It is found by the different examiners that the examinees do not appear to be properly conversant with some of the commercial and industrial problems in their details. This I would attribute to the absence of any suitable teaching and training. I am glad therefere that Professor Palekar in his Chapter on "Intermediaries of Indian Trade",

gives, in a short but interesting manner, paragraphs on the factors which go to make up the Trade of India—Intermediaries of Finance, Transport, Handling, Exchange Banks, Chambers of Commerce and Trade Associations, Trade Commissioners, etc. It was seen as a result of the First Great War that several merchants and traders, and even ordinary laymen, began to take interest in the theories and principles of economics. When the debacle of Reverse Bills came about, followed by a terrible depression, the men-in-the-street realised that the theory and science of economics was not an abstruse thing dissociated from the practical problems of life. It was felt that it was actively associated with the social life and structure of the Society, and affected individuals and the families more or less as much as it did the larger groups of individuals called nations and international entities. I feel that the study of economics from the standpoint of its relation and co-relation with the Society, both social and political, will be even more and more taken up as a result of the present World War. No one would have realised that this war would raise all sorts of questions like food, prices, controls, de-controls, deterioration in the health, etc., etc. as we see them raised up during the last three or four years. It is because of this that the Chapters on Finance of trade, technique of trade and trade policies are very useful. I hope that Professor Palekar's book will be made use of both by the public in general and the student world in particular. I expect that Professor Palekar will have to bring forth a revised edition, as soon as the war is over, incorporating therein all the pre-war, war and post-war experiences in regard to trade development.

congratulate Professor Palekar on his careful and interesting book, and hope that it will be a valuable addition to the literature, students of economics have got in this country.

Bombay.
27th December 1943. } **(Sir) Chunilal B. Mehta.**

PREFACE TO THE FIRST EDITION

THE present war has greatly emphasised the overwhelming importance of the foreign trade of India both to herself and to other countries. At no other time in India's economic history was the need for the control and regulation of trade felt more than during the present war. The repercussions of the war upon India's foreign trade in particular raise the vital problem of its post-war development and reconstruction. India will inevitably be faced with numerous and difficult problems which she will be called upon to slove in a world struggling with the aftermath of the present war. It is the manner in which she approaches these problems that will largely determine the outline of her economic future and correct the blunders of her economic past. To facilitate this important task, a humble effort has been made in the following pages to undertake a comprehensive and factual survey of our trade development till the present time and to indicate the various directions in which reform is essential. The book reiterates the average sentiment of dispassionate Indians who have expressed themselves impartially and fearlessly on the various disputable problems of Indian trade from time to time.

Indian economic life is full of confounding paradoxes and unfortunate, and in many cases, unreal

controversies amongst the leading economists of India, and poor mortals like the author of the present book, find it rather hazardous and audacious to express themselves emphatically on any particular question. I have therefore cautiously tried to avoid such controversies and wherever I have indicated them, I have, in fairness to the problem itself, placed its both sides before the reader.

I am fully aware of the innumerable shortcomings of the present book. In many cases it is likely to be felt that I have not done full justice to many important problems relating to our foreign trade; but that was inevitable in view of the general nature of the book itself.

It is impossible to thank individually all the persons who have rendered me invaluable assistance in the publication of this book. But I am particularly indebted to Sir Chunilal B. Mehta, Kt. for having kindly written a foreword for the book and also to Mr. Manu Subedar and Dewan Bahadur H. L. Kaji, my old professor of Trade at the Sydenham College, for having been so kind enough to go through my book and to make valuable suggestions. I am also grateful to Prof. W. R. Natu, Professor of Trade at the Sydenham College of Commerce and Economics, for having gone through some of the important sections of the manuscript and for having made some valuable suggestions. Mr. V. J. Mehta has placed me in a permanent debt by assisting me in innumerable ways during the compilation of the book.

I must also express my gratitude to Principal L. N. Welingkar of my college for having given me constant encouragement and special facilities for study in the college premises. I am thankful to Mr. P. K.

Garde, the Librarian of our college and Mr. K. G. Bhagwat, the Librarian of the Ramnarain Ruia College for having given me a free access to the library and also for having helped me greatly in finding books and references.

I have to experess my thanks to Messrs. G. V. Mahashabde, and U. S. Kumble for having assisted me in many valuble ways in the preparation of the manuscript and Mr. P. S. Warrier for having typed the manuscript promptly and accurately Mr. Mahashabde also kindly compiled the Index for which also I have to thank him.

Finally, the credit for the excellent printing and get-up of the book belongs entirely to Messrs. S. V. Kamath and K. Nagoji Rao, L. P. T. (Madras) of the Bombay Radio press owned by Messrs. Fazalbhoy Limited, to whom also I am obliged for the special effort that they put in for my book amidst many dfficulties.

Podar College, Matunga,
28th December, 1943.

S. A. Palekar.

The fact that this book is now in third edition is a sufficient recognition of the importance of the subject. It was my desire before I left India to revise the book and discuss a few more topics of recent interest such as the reconstruction of world trade under the International currency plans, the U. S. proposals for expansion of world trade and the position in regard to our Sterling balances in London. I have refrained from doing so in this edition because of my desire firstly to nature my own ideas in regard to them and secondly to await more tangible developments of the subject which would lend themselves to a better analysis without any hypothetical reasoning. These are topics of vital importance which is evident from the fact that Governments all over the world are now seriously preoccupied in finding a satisfactory solution in regard to them.

I have to express my deep sense of gratitude to Mr. Jal J. Pardiwalla, M. A. for having been kind enough to render me invaluable assistance in issuing this edition particularly in bringing the statistics up-to-date. I am thankful to Mr. G. V. Mahashabde of the Amrit Mudranalaya for having taken up the work in hand and finished in so short a time.

94, Prescott St.,
Cambridge, Mass.
U. S. A.
Sept. 23, 1946.

Sd/- S. A. Palekar

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CHAPTER I

INTRODUCTION

THE twentieth century has witnessed a change in the attitude of the nations towards international trade. From its towering position as the instrument of the enrichment of nations, it has gradually occupied a discredited status as a wonderfully well-disguised apparatus of impoverishing them. Those misguided economic heretics who felt that it was more beneficial for a country to export goods than to import them because the exports brought in precious metals, ultimately realised to their distress that world trade could not be made to assume a "one-way-traffic" form, and, more disillusioning still, that the precious metals were not as alluring as they appeared to be at first sight; that behind the brilliant beauty of the shining metals was hidden an innocent treachery calculated to impair the delicate fabric of the financial and economic life of the country. The prevalent economic theory about internal trade could not explain the mechanism of international trade and the need was keenly felt for a separate theory pertaining to the latter because of entirely a different set of circumstances existing in it *e. g.* imperfect mobility of capital and labour, different conditions of production, different currencies

and the conflicting monetary policies of different central banks. Economists, statesmen and business-men began to rack their brains to formulate a more elaborate theoretical basis on which this huge super-structure of international trade should be raised. At last economists agreed that it was the relative cost of production of the commodities in the various countries which governed international commercial relationships. International trade was eulogised as leading to lower cost of production by a territorial division of labour, higher standard of life for every country and optimum utilisation of the factors of production within the country. After having thus blessed humanity with this inexorable law, these immortal geniuses went to rest, probably imagining that there was nothing more in world trade to provide them with further intellectual pastimes.

These economists, who imprinted their names indelibly on the pages of the history of economic thought and gave to posterity a glorious tradition of an apparently irrefutable set of economic doctrines, succeeded in obtaining innumerable adherents for their utterances and theorisings about international trade, not so much because their arguments embodied a remarkable subtlety of logic and ingenuity of expression, but mainly because international trade had assumed such a placid and serene appearance that there was very little scope to verify the truth or to admire the wisdom contained in these scholastic doctrines. A theoretical analysis of international trade was an intellectual pastime because international trade, in actual practice, did not offer very great difficulties. Matters relating to trade had not yet adorned the electioneering platforms of political

parties; convictions about trade matters had not yet begun to ruin the promising careers of young aspring statesmen; vehemence of attachment to opinions about trade had not yet succeeded in tearing asunder life-long friends. The world had yet to see the curious anamoly of a progressive society divided into two camps of vested interests and raging sanguinary battles on a paltry and an insignificant trade affair such as the levying of customs duties on the imports of corn!

The reason why the collosal ship of international trade encountered no storm on its way was the existence of a simple and automatic mechanism known as the Gold Standard, under which countries of the world permitted an unimpeded export and import of gold. This free movement of the precious metals resulted in removing a glut or scarcity of goods anywhere in the world and lent a very dynamic touch to the course of world trade. There is indeed a great difference of opinion regarding the nature of the part played by the Gold Standard in world trade during those times. Without entering into meaningless controversies, we might analyse the mechanism of world trade under the Gold Standard.

Let us suppose that a country had a very favourable balance of trade. As a consequence of this, gold from foreign countries came into the country in payment of the excess of exports. The result of this inflow of gold upon the economic structure of the country was that prices rose proportionately and the country became a better place to sell in than to buy from. Thus exports declined and imports increased and the original balance of trade was restored and the excess gold previously imported now left the country It was the smoothness with which this mechanism

worked that made economists unduly dogmatic about the veracity and universality of the general theory of world trade formulated at this time. Heedless of these self-satisfied economists, international trade was taking care of itself, and it was this, more than anything else, which gave them a false feeling that God was in his place and all was well with trade!

The latter half of the nineteenth century will always be remembered as the most eventful and momentous series of years, both for the economic history and economic thought of the important countries in the world, because it offered a very severe test to all the previous notions about the theory of political economy in general and the theory of international trade in particular. It witnessed the abandonment by uncompromising economists of the theoretical plane from which they had regarded world trade and the concentration of their minds upon more practical problems presented by it. So long as there was only one industrialised country like England, satisfying the industrial requirements of other countries all went well. But when countries like Germany came up on the scene, defiant, determined and ambitious, demanding a share in this privilege exclusively enjoyed by England, offering serious competition to her in world markets, vieing with her for a supreme place in the economic structure of the world, the machinery of world trade, which had till then worked with comparative ease, now began to exhibit unmistakable symptoms of some internal disorder. England, Germany and many other leading nations were faced with the perplexing paradox of pushing their manufactures into foreign countries and at the same time protecting their own industries against the

competition of foreign imports. International trade threw off its previous serene mask and assumed a more aggressive, challenging and suspicious appearance. Countries of the world were divided into two camps: one consisting of hypocritical and selfish nations preaching free trade policy as a sublime set of principles; another, comprising of more frank and practical nations adopting protectionist trade policy with a clear conscience.

Ardent protectionsist argued that a protectionist trade policy was necessary to keep national wealth within the borders of the nation. The Mercantilist notions about the blessings of a favourable balance of trade were also revived by artificial respiration to lend some support to the ideal of protectionism. Like the patent medicines, protectionism was extolled as the panacea for all human evils, from deficit budgets of governments to stomach disorders of individuals. It was to be adopted to protect nascent industries in the country, to achieve a diversification of industries and ultimately economic self-sufficiency, to develop an extensive home market and to raise the general standard of life of the country. On the other hand, enthusiastic free traders, particularly in England, preached free trade as the only way of world salvation and almost entreated the Christian nations for the substitution of the Holy Bible by Adam Smith's Enquiry into the wealth of nations as the recognised Book of National Prayer and religious devotion. The controversy assumed such intolerent and aggressive form that school-rooms, lecture-halls, academies, Parliaments, churches and newspaper offices were resounding with its deafening echoes.

But world economy had by now entered upon such

a critical stage in its existence that a mere academic choice between one type of fiscal policy and another would not have afforded a correct solution for the channelisation of international trade along smooth lines. World economy had by now to solve a much broader problem to enable the nations to face the impending economic doom with a smile on their face. The problem was to maintain a continuity of progressive economic existence for the enormously rising population, amidst conditions of cut-throat competition in world trade and unemployment within this country—a problem of such urgent and comprehensive character that it could not be solved by the mere imposition or removal of customs duties on a few foreign articles. But the proverbial resourcefulness and inventive genius of some countries provided them with a sinful instrument wherewith to overcome the difficulty presented by the above problem. These countries realised that a campaign of territorial expansion beyond the borders of their country offered the only ray of hope to maintain such a continuity of economic existence and to prevent the catastrophe of economic stagnation and disaster within the country. The world at this time witnessed with trembling eyes these nations coming forth, some masquerading as traders, others as explorers, still others as priests and travellers; but all intoxicated with the blood-thirsty ambition of territorial acquisition, of extending their own military power and their own trade all over the world, and of building a vast empire as a valuable appendage to the economic life of their own country. They threw lustful glances towards the East, particularly India, in whom they saw infinite possibilities to satisfy their economic cravings. But India could not

serve many masters. So the trader threw away his scale, the explorer, his compass and the priest, his false whiskers and all marched forth, brandishing swords and established their sovereignty wherever they could; mercilessly massacring whoever challenged their supremacy. The world looked on with horried and stupified gaze this disgraceful scramble for empires amongst the civilised nations, and the most tragic division of world trade into two distinct regions—one agricultural and the other industrial; the agricultural part supplying the foodstuffs and raw materials and the industrial part manufacturing them into finished products.

The manufacturing countries became more and more dependent upon the agricultural countries and their economic life began to lose its strength and vitality. The economic problem became more aggravated than before and every country in the world began to dream of a vast empire overflowing with honey and gold. Some countries which came up late on the scene began to question and challenge the power of those which had already entrenched themselves in world trade. Arguments would not convince them; massacres did not satisfy them; battles failed to frighten them. At last the world in 1914 pronounced its fateful verdict upon the conflicts amongst these countries and that verdict was—a world war! The countries fell upon each other with great ferocity for the mastery of world markets and the supremacy over world trade. The war was fought more to decide, once and for all, as to who should dominate international trade than for anything else.

The countries fought for four long years, with a diabolical singleness of purpose, mustering together every bit of strength that they possessed. They made

a military victory their sole ideal. In their militant madness the countries could not see the unfathomable economic abyss into which they were leading their people. They ignored the monster which they were creating for their own destruction. Their sense of economic discipline and financial sobriety was overwhelmed with their thirst for blood and battle. World trade came almost to a stand still during these critical years of the war.

When the war came to an end in November 1918, the countries of the world, divested of their war mania, settled down to look around themselves in an atmosphere of remorse and reform. They lost all their former bravery of the battle-field when they saw the economic debris which they had piled at home and the appalling misery which they had inflicted upon their own people.

The disorganisation of world currencies that had taken place during the war began to have its disastrous effects in the post-war period, when normal intercourse between countries was resumed. The depreciation of the national currency was emphasised most by this resumption of international trade activity.

This new structure of international trade was raised on the ashes of the world war without clearing the dust and the debris that the war had piled up. The post-war economic atmosphere was so hazy that it gradually frustrated the initial hopes of some people about a new world order after the cessation of hostilities. "The prevalent feeling when the war came to an end was that after a time things would settle down in their old grooves and that after some licking of wounds, the different combatant nations

would somewhat shyly resume their earlier relations."*

saw the inherent weaknesses of the post-war economic structure of the world characterised by heavy war debts, reparations, exchange chaos, bloc-kades, wreckless currency inflation and starvation of millions of people in some countries. Whilst the economic wounds inflicted upon some countries by the war were still bleeding, other countries were busy picking up the dthreads of their economic life which they had lost during the war. The automatic mechanism of the international gold standard had already collapsed; the enormous currency inflation in certain parts of the world and the absence of monetary stabilitv within the country; the chaos and confusion of world exchanges; the inability of certain countries to pay for their imports due to their exclusion from world markets; the burden of war reparations and war debts; the exceptionally high tariff walls which some countries raised along their national borders to insulate their national economy, as a part of a broader policy of economic self-sufficiency; the wars of currency depreciation and the conflicting monetary policies of different nations to stimulate their own trade—all these and other factors had the cumulative effect of making it almost impossible for world trade to resume its normal course. The surging wave of post-war speculative boom which ultimately collapsed in 1929 brought in its wake a world-wide trade depression whose severity and magnitude the countries soon began to realise. A restoration of the Gold Standard seemed to be indispensable for creating confidence and monetary stability in international relationships; and

*J. A. Hobson: *Confessions of an Economic Heretic*—page 114.

facilitating the settlement of international accounts. England restored the Gold Standard and thus gave a lead which few countries followed. War debts and reparations were reduced considerably to suit the convenience of the debtor nations; artificial purchasing power was placed in the hands of those countries like Germany impoverished by the war. The old difficulties in the path of international trade were thus apparently removed and world trade was provided with these new crutches to plod its weary way under the guidance of England, France and America who came out as the champions of world economic recovery and stability, because the intimate connection between the economic progress of their own country and that of other countries in the world was becoming increasingly apparent to them.

World trade would probably have submitted itself to the influence of these reforms but for an inauspicious economic discovery which some countries made and actually executed in practice. That discovery had reference to the role which money played in international trade. Money ceased to be regarded as a mere yeil. Money economy was no more viewed as an artificial superimposition upon a barter economy and some economists even emphasised the fact that barter economy, although it might be a convenient weapon of economic analysis, was the most unnatural hypothesis far removed from actual economic life of the present world. Countries began to feel that money would even be harnessed for the development for their trade; that it made or marred their trade through its tremendous influence on the foreign exchanges and the price of level within the country. A pure theory of world trade gave place to a monetary

theory of world trade, and the world saw a virtual abandonment of the classical theory of international trade as the illegitimate child of the economists themselves and not the spontaneous outcome of fortuitous set of circumstances presented from time to time by the practical operation of trade. Some countries realised that instead of pursuing in darkness the black cat of the international gold standard, it was easier and more practical to stimulate their exports by depreciating their national currency with the aid of an appropriate monetary policy. Thus monetary policy appeared to be such an omnipotent instrument that the problem of the restoration of the gold standard paled into insignificance.

These countries depreciated their national currencies and began to dump their manufactures upon the markets of their countries particularly those which had restored the gold standard. As in the pre-war period, the co-existence of different currencies could not be neutralised because the gold standard was not adopted on a world-wide scale. The outcome of these unfortunate developments was that world trade was segregated into almost exclusive and sacrosanct currency blocs and regional groups and the original tendency for Government interference in foreign trade of their own country received considerable stimulus. Without such grouping and mutual support, countries found themselves tottering and falling. With high tariffs, quotas, dumping, bilateralism, trade agreements and most favoured nation treatment, international trade became so difficult, if not impossible, that countries belonging to the same Empire or those using the same monetary standard, developed a sudden outburst of love and affection for one another

and passionately clung to one another with the desperate idea of either standing together or falling together. This resulted in a general acceptance and adoption of a determined policy of economic nationalism all over the world characterises by agrarian protectionism in industrial states and industrial protectionism in agrarian states. Countries now began to feel that their dependence upon foreign imports was a source of great weakness in their economic life and began to pursue an economic policy of tearing themselves away from world economic structure and becoming economically independent of other nations. This tendency received particularly great stimulus after Germany refused to transfer the foreign exporters' credits accumulated with the Reichsbank. International economy received a rude shock by this unforeseen incident in the delicate system of the settlement of international accounts. A ruthless process of international economic disintegration set in and culminated in the present world war.

No one can hazard an accurate prediction of the economic outlook after the present world conflict comes to an end. It depends largely upon the final outcome of the fighting and the ideas of economic liberty which may influence the minds of economists and statesmen in the post war period. But one must remember the old and thoughtful adage that History repeats itself and if the world has learnt any lesson from its past experience, one can reassure oneself that the repetition will not be as stubborn an merciless as in the past. Let us, however, find our consolation in the thought that "every modern war demonstrates the extraordinarily swift powers of regeneration inherent in our economic system,

provided that its inner driving energy and ultimate material forces are left intact."*

*Wilhelm Ropke : *International Economic Disintegration*— Geneva 1942 page 261.

CHAPTER II

A BRIEF HISTORY OF INDIA'S TRADE DEVELOPMENT

THE history of India's trade may be studied conveniently under the following heads:—

I.	Ancient period	
II.	The Invasion Period	(1100—1700)
III.	Early European Period	(1700—1900)
IV.	Pre-war Period	(1900—1914)
V.	War Period	(1914—1918)
VI.	Post-war Period	(1918—1929)
VII.	Depression Period	(1929—1935)

I. ANCIENT PERIOD:—

From the earliest times of her history, India is reported to have developed trade relationships with almost all the important countries of the world. Irrefutable archaeological evidence indicates that India was carrying on trade with countries like Egypt, Arabia, Germany, China, Japan, Java, Sumatra. Pliny's complaint of the drain of gold from Rome to India in his historical records, the exploration of Egyptian dummies

This chapter deals with the history of India's trade development till the end of the depression period i.e. 1935. For subsequent history see chapters *Recent development of India's Trade.*

wrapped in Indian Muslins, the Indian names of the Dutch East Indies' ports and many other similar indications give a clue to the extensive trade which India carried on with the world at that time. The overland trade during this period was carried on mostly by routes from China, while the overseas trade was carried on along the Persian Gulf and the Red-sea Route. The crusades affected the importance of these routes which had ultimately to be abandoned until the European adventurers discovered a new route to the East.

The articles of trade according to Rhys Davids* were Silks, Muslins, finer sorts of cloths, cutlery and armour, brocade, embroideries, and rugs, perfumes and drugs, ivory work, jewellery and gold, which were regarded by other nations as of a very superior quality. Our exports during this period consisted of animals, minerals, manufactures of all types, whilst the imports consisted of minerals, wines and fruits, wheat etc. The most noteworthy features of India's trade during this period were a heavy export of manufactured goods, the presence of a very large and heavy export trade and, as a natural consequence, a favourable balance of trade. Our country was supplying almost all the nations of the world with their requirements in manufactures and could legitimately be called the *Workshop of the World.*

II. THE INVASION PERIOD (1100—1700):—

This was a period which witnessed constant warfare and a general unsettled political condition which re-acted most unfavourably upon the development of India's trade. The movement of goods within the

Quoted by K. T. Shah *Trade, Tariffs and Transport* Page 9.

country was subjected to great perils and the uncertainty of life and property combined with civil wars made it very difficult, if not impossible, for India's trade to be continued along a smooth and unimpeded course. The foreign invasions and the devastations by internal plundering tribes diverted all the energies of the people from the development of trade to the preservation of life.†

The death of Aurangzeb in 1607 and the consequent break-up of the Mogul Empire resulted in the removal of a steady influence and centralized authority in the country. Our trade activity began to languish and an unfortunate gap was created in India's trade development during the latter part of this year.‡ This unfortunate gap, as we shall see later, was filled up by English and European merchants who came down to India to seek their fortunes.

III. EARLY EUROPEAN PERIOD (1700—1900):—

The Western nations at this time began to rack their brains to find out a trade route to the East in order to extend their growing empire beyond the continent. Thus we find the Spanish and the Portuguese adventurers setting out under Government patronage to discover a sea-route to the East and to dominate the trade of India. Many Trading Companies were started in Europe particularly Holland, France and England for the specific purposes of developing the trade of their country. The Dutch and

† Sir W. W. Hunter in his *India of the Queen* has followed Grant Duff in including the Marathas as one of these internal plundering tribes.

‡ For a detailed study see W. H. Moreland—From *Akbar to Aurangzeb*. P. P. Pillai's—*Economic Conditions in India*. L.C.A. Knowles—*Economic Development of the Overseas Empire.*

French merchants had already got entrenched in the Eastern trade, when the English merchants landed on the Indian coast. The consequent jealousies and conflicts amongst these three rising empires of those times, ultimately resulted in the defeat of the French and the Dutch and a virtual monopoly of the East India Company over Indian trade. The most tragic consequence of this development was the progressively decreasing share of Indians as compared with foreigners in the development of India's trade. The foreign merchants carried on the more profitable trade with the Continent, leaving only the trade with contiguous regions to Indian merchants.*

The manner in which the Directors of the East India Company exercised their monopoly over India's trade was characterized by a lack of national consciousness and constituted, as Burke put it, "a permanent vehicle of the private fortunes of the Company's servants.† The Directors of the Company carried on India's trade with the object of swelling their personal pockets rather than to enhance the broader interests of their own country which had sent them here. As a result of this lust of the Company's Directors for building up personal fortunes, India's trade received a considerable stimulus. New markets were developed in America and Africa, whilst the old markets in Asia and Europe received a great support. The exports at this time consisted of cotton, and silk manufactures, spices, sugar and indigo, minerals and drugs, and cotton and silk yarn, while the imports comprised of silver bullion, metals from England, woollen manufactures etc.

* See Parshad I. D. *Some Aspects of India's Foreign Trade.* 1775-[1893 (Lond.) 1932]

† *Ibid* page 99.

The first half of the last century witnessed a very important and unfortunate development in the character of India's exports. Until then India was exporting manufactures but during this period India began to export foodstuffs and raw materials to foreign countries particularly England and to import British and other foreign manufactures. The East India Company's monopoly over Indian trade was removed by the British Government as a consequence of the unwillingness of the Company's Directors to adjust their trade policy to the requirements of England. The Directors of the Company were interested in exporting Indian manufactures which was more profitable than to export foodstuffs and raw materials. This period marked the advent of the Industrial Revolution in England, who began to change her outlook on India. She wanted India to provide the necessary raw materials for the rising industries of England; and a convenient market for English manufactures. The consequence was an inevitable suppression of Indian trade and industry in general.‡

As Knowles § has put it:

> "India supplied some of the essential raw materials, hides. oilseeds, dyes, jute and cotton required for the Industrial Revolution in England, and at the same time afforded a growing market for English manufactures of iron and cotton at a time when the buying power of the Continent

‡ For a detailed account of the downfall of India's Trade during this period see Major B. D. Basu—*Ruin of Indian Trade and Industry.*

§ L. C. A. Knowles: *The Economic Development of the Overseas Empire.* page 447.

was restricted owing to the after-effects of the French wars".

The latter half of the last century witnessed important developments in the world with far-reaching significance upon the position of India's trade. The opening of the Suez Canal in 1869 proved to be a great landmark in the history of India's trade development. There was a phenomenal rise in the quantum of imports of foreign manufactures into India. The general trend of world economic thought towards a free trade policy, although it proved to be a god-send to England, yet proved disastrous to the economic development of India. The improved means of international communications combined with the opening of the Suez Canal brought India nearer to many of her Continental buyers such as Italy, Austria, and also Russia, Persia, Egypt and others. The voyage took comparatively much less time than before, so that perishable foodstuffs like wheat and rice could be easily exported. The development of inland communications greatly facilitated the movement of goods from the interior to the port towns and thus directly helped to stimulate India's trade. The development of the English Mercantile Marine at this time and the con cessional freight rates it offered to us in competition with other European shipping companies also helped to encourage our exports to a great extent.

In spite of the devastations by famines and the disasters of the currency and exchange troubles within the country, India's trade began to rise steadily from this time onwards until the outbreak of world war in 1914.

Before we proceed to review India's trade develop-

ment during the 20th Century we may summarize the effects of India's trade development during this period upon English economic life.

1. As we have already seen, Indian manufacturers in the first instance fulfilled the requirements of the English population. The notorious Calico Acts and the high English Tariffs against Indian manufactures during the earlier half of the last century indicate clearly the magnitude of this trade.

2. Later on, however, although we ceased to provide England's requirements of finished goods, we supplied English industries with valuable raw-materials and it would be no exaggeration to say that the development of India's trade was a necessary prelude to the Industrial Revolution in England. Arkright's spinning Jenny would probably have degenerated into an amusing toy for English children, if raw cotton from India had not been exported in huge quantities to England!

3. By entrusting the carriage of our goods to English ships we hastened very greatly the pace of the development of England's Mercantile Marine and ensured its supreme position in the world.

4. As a natural corollary of the above, we made it possible for English Import and Export Houses, Insurance Companies and Banks, which are the necessary aids to trade, to come into existence and to maintain their position against other countries in the world.

5. The development of London as one of the greatest financial centres in the world would probably have never taken place if Indian goods had not been assembled in London for being sold to other countries of the world. The foreign merchants intending

to purchase Indian produce had inevitably to maintain huge balances in London which gradually came into prominence as a great money market for the movement of international fund.

6. The unfortunate reversal in the composition of Indian trade which began in the latter half of the 19th Century resulted in India's providing a very suitable and extensive market for English manufactures.

7. The intermediaries of Indian trade were mostly English Indent Firms which made colossal profits from India's trade.

8. The English shareholders of the Suez Canal also obtained attractive dividends as a result of the huge amounts of canal dues on Indian goods.

9. The development of Indian trade may be regarded as having made a major contribution towards the riches of some English families in particular and the prosperity of England in general.

IV. PRE-WAR PERIOD : (1900-1914) :—

This was a period of unimpeded progress of the trade of India as a natural consequence of the general economic prosperity in the world.* The increased production of gold in the world and the consequent rise of national and international prices gave a powerful fillip to business activity all over the world. This continued prosperity was, however, interrupted for a short period in 1908-1909 owing to the failure of the monsoons, the banking crisis in the U.S.A. and also the exchange crisis within the country. Fortunately, however, the impact of these circumstances was not allowed to persist very long and conditions soon

* See Parimal Ray: *India's Foreign Trade since* 1870(Lond) 1934.

became favourable for the development of trade which increased with a rapid space during this time. The steady rupee-sterling exchange and also the continued prosperity of the western countries reacted very favourably upon the development of India's trade during this period. This can be very well seen from the following table† which gives the values of imports and exports during this period.

(In crores of Rupees)

Year	Imports	Exports	Total
1900-1901	76-27	104-16	180-43
1905-1906	103,08	169-[illegible]0	272.18
1907-1908	107-50	148-45	255-95
1911-1912	117 72	202-24	319-96
1913-1914	150-35	196-62	346-97

The following table gives the commodity balance of the trade of India during 1900-1914.

INDIA'S COMMODITY BALANCE OF TRADE

Years	In crores of Rupees
1900-01	22-91
1900-02	34-86
1900-03	35,75
1900-04	45-34
1900 05	38-54
1900-06	32-83
1900-7	27 .62
1900-08	11 .76
1900-09	31-32
1900-10	42-20
1911.11	51-41
1911-12	50-67
1912-13	41-44
1913-14	53-96

Ibid page. 79.

From Pandit Y. S. : *India's Balance of Indebtedness* Page 46—47.

The important features of India's trade in the pre-war period may be summarised as follows :—

1. The exports of raw materials and imports of foreign manufactures.

2. The growing volume and value of the quantum of trade leading to a growing balance of trade favourable to India.

3. Growing share of the United Kingdom in the absorption of the exports of Indian raw materials and foodstuffs.

4. The development of trade relations with Japan the U. S. A. and also some of the Continental countries like Germany and France.

5. The adoption of a policy of free-trade by India under the influence of England who imposed that policy upon her in order to ensure an unobstructed and extensive scope for English manufactures in the Indian market.

6. The latter part of this period was, however, rather disappointing in as much as it did not maintain the same rate of development as in previous years. This may be attributed to the industtial strifes on the Continent, decline in America's demand for Indian produce, outbreak of the Balkan war, irregular monsoons and the banking crisis within the country at this time.

7. A very significant development during this period was the increase in the competition which the British manufactures had to face from German and other manufactures. A revision of India's trade policy appeared to be inevitable in the interest of England and would most probably have taken place but for the outbreak of the world war in 1914.

8. This period witnessed an enormously increasing

export in jute and raw cotton to England.

9. As Vera Anstey * observes:

" The first fourteen years of the twentieth century were marked by great prosperity and a great increase in, but little change in India's foreign trade. It was during these pre-war years that although, India continued to do far more trade with the United Kingdom than any other country, the U. S. A. and Japan first became important factors in Indian trade. Trade with Central Europe also increased by leaps and bounds."

V. WAR PERIOD (1914-1918) :—

The outbreak of war in 1914 gave a great set-back to the development of Indian trade. The volume of foreign trade declined to half its former magnitude owing to a number of causes which we shall examine presently. Our foreign trade lost the promising position which it had attained during the preceding 14 years. The exports and imports of merchandise declined by about 34%. The following table † gives the value of Indian exports and imports during this

Year	Imports (private merchandise only)	Total Imports (including treasure, Govt. transactions &c.)	Exports (private merchandise only)	Total Exports (including etc.)
	(In Crores of Rupees)			
From 1909-10 to 1913-14	145.85	198.87	219.50	431.42
1913-14	183.25	234·75	244.20	490.84
1914-15	137.83	166 74	177.48	354.20
1915-16	131.99	150.11	192.36	357.90
1916-17	149.63	198.70	237.10	452.49
1917-18	150.42	216.12	233.44	468.56
1918-19	169.03	259,93	239.32	524.25
War Average	147.80	215.97	198.32	431.45

* See Vera Anstey : *Trade of the Indian Ocean.*

† From Parimal Ray : *India's Foreign Trade* Page 89.

period and if we make sufficient allowances for the appreciation of the rupee and rise of prices due to the war, we can obtain an approximate idea of the extent of the damage caused to Indian trade during this momentous conflict:—

From the above table it will be seen that India had a favourable balance of trade during these years and some writers lay an undue stress upon this fact and conclude hastily that India's trade was quite prosperous at this time. But as Parimal Ray* has well remarked: "It passes our comprehension why a straightforward course should be avoided and shelter should be sought behind the blind alley of the balance, to prove the supposed prosperity. The retrograde tendency of our trade during the war period is true beyond any shadow of doubt and no amount of sophisticated argument or statistical jugglery can disprove or conceal it."

Let us now examine the causes which led to this serious bet-back in the development of Indian trade during the war. It is well-known that other countries like Japan and the U. S. A. increased their trade by leaps and bounds while India was compelled merely to watch this golden opportunity to develop her trade which presented itself in the form of the world war in 1914. In the following pages an attempt will be made to analyse the various causes which did not permit India to take advantage of the favourable situation created by the war.

1. The dislocation of international communications made it impossible to send goods to the Continent with whom India had the largest trade. The

* Ibid page 92.

territorial range of Indian trade suddenly became very narrow.

2. Indian trade with Germany which had been showing very promising signs in the pre-war period, was abruptly cut off as trading with the enemy countries was forbidden by Government.

3. Our trade with countries like Russia also suffered owing to difficult and uneconomic transport.

4. The impoverishment of the fighting countries, most of whom were our best customers, reacted very unfavourably upon the position of Indian trade. Their requirements of Indian produce could not be fulfilled because of their inability to pay for them.

5. Most of the countries of the world took serious measures to prevent the unimpeded entry of foreign goods into their country to fill up the gap created by the diversion of their productive resources to war industries. This made it difficult for the Indian goods to be exported to those countries.

6. Since Indian produce could not be sent abroad it was natural to convert the raw materials into manufactures within the country itself. But India was dependent, as she still is, upon the imports of foreign machinery which ceased to come in as the result of the war. Thus, India could not stimulate her manufacturing industries to the same extent, as some other countries notably Japan and the U.S.A.

7. India's import trade also declined very heavily because most of her suppliers like England and the Continental countries were completely occupied with the successful prosecution of the war.

8. The imposition of a very much higher scale of duties upon imports than before, also resulted in a set-back in the import trade of India. Export duties

on jute and tea were also levied by the Government of India. This unforeseen obstruction to Indian trade in the form of protectionist trade policy was necessitated not only by the financial exigencies of the war, but also by a natural desire on the part of Government to eliminate the possibility of the capture by Japan and the U.S.A. of the Indian market which had ceased to be supplied with English manufactures as a result of the war.

9. The scarcity of tonnage to carry Indian produce also contributed towards a serious set-back to the trade of India. The mobilisation of British ships plying in Indian trade for military purposes, the locking up of allied mercantile marine in the Baltic and the Black Seas, and the colossal destruction of Allied ships by German submarines resulted in a very severe paucity in world tonnage in general, and as India was exclusively dependent upon foreign ships for the carriage of her trade, the shortage in world tonnage had a particularly damaging effect upon her trade.

10. The currency and exchange muddle at home also contributed to the stagnation in Indian trade during the war. The failure of Government to support the rapidly weakening exchange, withdrawals of savings bank deposits, encashment of currency notes and the general demand for gold resulted in a panicky condition of internal currency about which Findlay Shirras* writes:—

"The internal currency position during the first of these two periods was not free from anxiety owing to a vague unwarranted sense of insecurity among the masses notably the Marwarees. Some of these Marwarees, preferring the ease of their home to the

See Findlay Shirras: *Indian Finance and Banking* page 46.

apparent insecurity of the market place went off for a time with their valuables to Rajputana."

This state of internal and external currency presented itself as an additional impediment to the development of India's trade during the war.

11. It has been pointed out by certain writers that the unfavourable geographical position of India in being far away from her best customers like Europe, the U. S. A. and England, was one of the important causes leading to a great decline in Indian trade during the war. They state that if India had been nearer to these countries, the impact of war upon her trade would have been considerably minimised. It may, however, be observed that the loss of these distant foreign markets during the war could have been appreciably compensated for by the development of nearer markets particularly the N. W. F. countries, South Africa and the Dutch East Indies which are comparatively less industrialized than India. The problem of developing trade with these contiguous countries is of vital importance and has been dealt within a separate chapter.

CHARACTERISTICS OF TRADE DURING THE WAR (1914)

1. The volume of trade declined heavily as a result of the various causes mentioned above.

2. The value of trade, however, rose as a consequence of the war.

3. Imposition of a protectionist trade policy upon India in the form of heavy duties on imports and also export duties on Jute and Tea.

4. An artificial channelization of our trade to fulfil the requirements of the U. K.

5. The narrow territorial range of trade. As already noted, the war brought about a natural limitation in the regional extent of our trade.

6. Although the volume of trade declined, the rise of prices of the Indian produce result in a favourable balance of trade. This balance was not so enormous as some writers try to prove.

7. There was a significant decrease in the exports of precious metals owing to the difficulty of obtaining gold as the result of the war and also an acute shortage of silver resulting from a decline in production and a very heavy world demand.

8. The difficulties of transport due to the shortage of tonnage was also an important characteristic of Indian trade during these years.

9. The instability of currency and exchange position was a significant feature of Indian trade during the war.

10. Perhaps the most important development of the Indian Trade during the war was the decline in the imports of English manufactures and a heavy increase in the imports of Japanese and American manufactures.

11. There was also a considerable change in the composition of Indian Trade. Foodstuffs and raw materials assumed a very important role in the export trade while the importance of manufactures suffered a comparative set-back.

12. The internal trade of India, however, received a considerable stimulus not only as a result of the increased purchasing power within the country but also the difficulty of exporting Indian manufactures abroad.

VI. POST-WAR PERIOD (1918-1929):—

The first half of this post-war period continued the set-back which Indian trade received during the war, and it has been stated that the post-war period was prob. bly more disastrous than the war period. The development of Indian trade depended very largely upon the economic recovery of Europe which was one of our best customers. The short-sighted economic policy which the Allies pursued at the Treaty Conference made this recovery considerably difficult and Indian trade could not resume its normal course after the cessation of the war, as had been anticipated by many people. The wave of economic nationalism resulting in insurmountable obstacles to world trade such as, heavy tariff walls, combined with a serious dislocation of international exchanges, made it impossible for India along with the world to regain her former position in international trade. The abandonment of the Gold Standard which was the back-bone of international trade, was also very largely responsible for the continuation of the period of set-back which Indian trade had received during the war. The disastrous consequences of the reckless inflation of currency in some important countries like Germany made it imprudent for India to contract trade relationships with these countries. England at this time was following a defationary monetary policy in order to restore the Gold Standard in England. The policy had far-reaching effects on India's trade.

The internal state of affairs was equally disappointing. The Government of India was also persuing a severe deflationary policy to stabilise the Rupee-Sterling Exchange at a high level and this resulted in a

precipitous fall of prices within the country and a general state of business inactivity. The constant labour strikes and the difficulty of transporting fu to our industries; due to a conjestion in Indian railway traffic, directly affected the production of our industries and indirectly the position of our trade. The persistent disparity between export and import prices implied that India had to pay more than what she rceived in her international account.

The following table* gives the value of sea-borne merchandise during this period :—

Year	Imports	Exports		Net Balance
	(In crores of Rupees)			
1919-20	221.7	336.00	+	114.3
1920-21	347.56	267.76	–	79.80
1921-22	282.59	248.65	–	33.94
1922-23	246.19	316.07	+	69.88
1923-24	237.18	363.37	+	126.19
1924-25	253.37	400.24	+	146.87
1925-26	236.00	386.82	+	150 82
1926-27	240.82	311.05	+	70.23
1927-28	261.53	330.26	+	68.73
1928-29	263.40	339.15	+	75.75
1929-30	249.71	318.99	+	69.28

From the above table we see that the first three years of this period were depressing. The value of both exports and imports recorded a fall and India had unfavourable balance of trade in 1921-22.

After 1923, however, there were unmistakable signs of trade recovery not only in India, but all over the world. The most powerful influence leading to this promising state of affairs was Europe's return to economic and political normality. The disputes about

* See B. V. Narayanswami Naidu : *Indian Trade.* Page 42.

the war reparations were temporarily settled and a new era of apparent peace was ushered in, in the political history of Europe. The restoration of the Gold Standard in the U. K. and an appreciable stabilisation of the monetary systems of some of the important nations with whom India had extensive trade, was also responsible for the recovery of Indian trade during these years. The favourable monsoons within the country, the stability of the Rupee-Sterling Exchange, combined with a considerable adjustment between export and import prices gave a great stimulus to Indian trade.

FEATURES OF POST WAR TRADE †

1. A general decline in the volume of import of cotton piece-goods is noted which may be attributed mainly to the development of the indigenous cotton textile industry.

2. A considerable advance in imports of chemicals may be explained by the establishment of new industries within the country requiring these chemicals for their processes.

3. Imports of mineral oils have been steadily rising in the post-war period owing to the development of road transport and increased consumption of illuminants.

4. Imports of foreign broken rice for the first time began to appear on the scene, to the detriment of the Indian cultivator.

5. Re-distribution of India's imports.

6. A gradual rise in the exports of manufactured goods.

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† See *Handbook of Commercial Informatian for India.* 3rd Edn. 1937—page 127.

The important characteristic of trade during these years was a declining tendency of the imports of foreign manufactures. This may be explained by the public boycott of foreign manufactures which was initiated as a result of the wave of patriotism which swept over the country at this time. The composition of exports also underwent a very desirable change in the form of a greater predominence of manufactures than before. This was a distinct indication of the tendency towards increasing industrialisation within the country. These years recorded a comparative diminution of the importance of the U. K. in Indian trade. India began to send her goods to almost all the important countries of the world and this marked the end of the artificial channelisation of our trade which had taken place during the preceding years. The development of the raw cotton trade with Japan was a characteristic feature of a far-reaching significance particularly to England. India's trade with the Empire countries also began to increase during these years. The concluding year, however, recorded a decline in the balance of trade—a decline which was only a preface to a prolonged trade depression not only in India, but all over the world during the subsequent years.

THE WORLD-WIDE TRADE DEPRESSION

Theories of the Trade Cycle :—After 1929, however, the world witnessed a catastrophic fall in trade activity as a result of the general collapse of the price level in the world. The belligerent countries began to reap what they had, in their militant enthusiasm, sown during the preceding years. Various explanations of this world-wide depression have been

put forth and it is not the purpose of this book to discuss them in details.* A brief enumeration, however, of these different theories has been attempted below.

The explanations may be classified under two broad categories; (1) the monetary and (2) the non-monetary theories of the Trade Cycle. The monetary theories of the trade cycle attribute the cyclical phenomenon to a mal-adjustment between the savings of the community and investment. It was Mr. R. G. Hawtrey † who, for the first time emphasised that the trade cycle is "a purely monetary phenomenon" Mr. Hawtrey explains the trade cycle by the 'flow' of money in society. There is also another group of economists consisting of Dr. Hayek, Ludwig Von Mises, Lionel Robbins and others who attribute the cyclical fluctuations in trade to our investment in capital or consumption goods. Welfare economists like Hobson in England and Messrs. W. T. Foster and W. Catchings in the United States, attribute the trade cycle to under-consumption, i.e., to the workers' receiving too small a proportion of the product of industry. Thus there is an insufficiency of consumers demand owing to the failure of wages to rise and the additional wealth; produced by the workers and concentrated in the hands of the *entrepreuners*, cannot be disposed of. This leads to a period of stagnation in business.

The 'psychological theory' of the trade cycle propounded by Profs. Marshall, Pigou and Lavington

* For a very analytical exposition of the various theories of the Trade Cycles see 1. Harbler's *Prosperity and Depression* 2. Macfie's *Theories of the Trade Cycle*. 3. Dr. Hayek's *Monetary Theories of the Trade Cycle*. 4. J. M. Clark's *The Strategic Factors in Business Cycles*.

† See his *Good and Bad Trade*; *Trade Depression and the Way Out*: and *Currency and Credit*.

explains the periodical fluctuations in trade by the feelings of optimism and pessimism of the *entrepreuners.*

The 'Sunspot Theory' propounded by W. S. Jevons tries to explain the rhythmic movements in trade activity to certain periodic changes in the Sun's conditions affecting the weather and the crops. Subsequent research on this problem, however, has shown that the connection between the solar system and the industrial fluctuations is distant and indirect.*

Some economists attributed the trade depression to the destructive effects of the war in the form of the annihilation of real wealth in the world. Others ascribed it to the disorganised state of world exchanges. Still others thought that the disposal of the Government surplus stocks after the termination of hostilities threw an enormous quantity of goods upon the market and had a depressing influence upon their prices.

It may, however, be noted that there has not yet been any conclusive explanation of this phenomenon of trade cycle which has such disastrous consequences upon world economy. There are still serious cleavages of opinion on this important problem, not only amongst the different schools of thought but also amongst the members of the same school of thought. A critical analysis of these theories would form a subject of separate study by itself. We shall, therefore, proceed to examine the effects of this world-wide economic depression upon India's trade.

* See H. S. Jevons : *The Future of Exchange and Indian Currency* Page 72-94.

VII. THE DEPRESSION PERIOD † (1929—35):—

We have already noticed the depressing tendencies in India's trade during the last year of the preceding period. The years after 1930 ushered in an infortunate period of stagnation in India's trade development. India could not keep herself aloof from the disastrous effects of the trade depression that was raging wildly all over the world. The unsettled political situation within the country also contributed its own quota to check India's trade development. A serious collapse of agricultural prices in the world, together with a decline in the world-demand for raw materials, very adversely affected the value of our exports. In 1929-30 our exports amounted to about Rs. 318 crores, recording a decline of about Rs. 20 crores as compared with the previous year.

The following table ‡ gives the total value of exports and imports in crores of rupees:—

INDIA'S TRADE DURING THE DEPRESSION

Year	Imports	Exports		Net Balance
1929-30	249.71	318.89	+	69.28
1930-31	173.06	226.50	+	53.44
1931-32	130.64	161.20	+	30.56
1932-33	135.01	136.07	+	1.06
1933-34	117.28	150.23	+	32.95
1934-35	134.59	155 50	+	20.91

The imports in 1929-30 amounted to about Rs. 250 crores recording a decline of about Rs, 15 crores as compared with the preceding year. The declining tendency of exports continued right up to the end of this period; whilst imports also continued to decline,

† See Jathar and Beri : *Indian Economics.* Page 246-251.

‡ See *Reviews of* the *Trade of India* 1929 to 1935,

but more steadily. The year 1931-32 was a very eventful year in world economic history. It witnessed an abnormally persistent and huge movement of gold to the U. S. A. and France and will ever be remembered as a momentous year in England's monetary history. The incident which marks out this year for particular attention was the abandonment of the Gold Standard in September 1931 which had a very significant influence upon the economic life of India in general and the trade of India in particular.

The effect of the suspension of the Gold Standard was a heavy export of gold from India due to a phenomenal rise in the prices of precious metals. But inspite of these heavy exports of precious metals, our exports recorded a decline of about 65 crores as compared with the previous year. From 226.50 crores in 1930-31 they came down to 161.20 in 1931-32. Similarly the imports declined by about 43 crores from 173.6 in 1930-31 to 130.64 in 1931-32. India thus had a favourable balance of trade of 30.56 crores during this year and the really insignificant character of this balance can be very well seen if we bear in mind the huge exports of gold from India at this time. The relatively greater fall in the value of exports as compared with that of imports can best be understood in the light of a greater fall of agricultural prices comprising the bulk of India's exports as compared with the prices of manufactures forming a major portion of India's imports.

In 1932-33 the U. S. A. abandoned the Gold Standard. This financial catastrophe of world-wide importance combined with a wave of economic nationalism in world trade dealt a severe blow to India's trade. The countries of the world began to form themselves

into different groups for purposes of trade by means of bilateral trade contracts and India could not independently enter into such contracts with any country to safeguard her trade. Although inspite of these adverse factors, imports into India increased by about 25 crores, the exports declined by about 25 crores in spite of the heavy exports of gold and India's balance of trade reached 1.06 crores, being the lowest figure reached during the past so many years. The increase in imports may be explained by the improvement of the political situation within the country and also the greater share in India's trade which the U.K. began to take as a result of the Ottawa Pact signed with India at this time. An important characteristic of India's trade in this year was the decline in the share of the U. S. A. and a compensating increase in England's share in Indian trade.

The year 1933-34, however, showed a little improvement in the exports which rose to 150.23 from 136.07 crores in the previous year. The imports, however, recorded a steep decline of about 17 crores and this may be attributed to the enhancement of the import duties to finance Government's deficit budgets. The conditions under which world trade had to be carried on also became more unfavourable as a result of import and export restrictions, quota-system, high tariff walls and the new character of trade agreements adopted by various countries in the world. The failure of the World Economic Conference in 1933 and the defection of Japan and Germany from the League of Nations aggravated the depressing tendency of international trade which indirectly affected the trade of India.

The year 1934-35 which marked the end of the prolonged period of stagnation in India's trade also did

not show much improvement; whilst the imports rose by about 17 crores; the exports rose only by about 5 crores and the balance of trade recorded a decline of about 12 crores.

We may now summarise the general features of Indian trade during this period of depression.

1. A declining tendency in the value of both exports and imports.

2. An increasing adoption of protective duties in India.

3. An initial diversion of trade beyond the U. K. but the ultimate channelisation of it under the Ottawa Agreement.

4. Huge exports of gold from India.

5. A decreasing share of the U.S.A. and an appreciable increase in Japan's share in the trade of India.

6. Statutory preference to British manufactures under the Ottawa Agreement.

7. A regional circumscription of Indian trade within the British Empire.

8. Protective duties on sugar, steel, etc.

9. Improvements were noticed in the export of rice, oilseeds, wheat, coffee, raw and manufactured cotton, hides and skins, and lac.

10. A decline in the exports of food grains.*

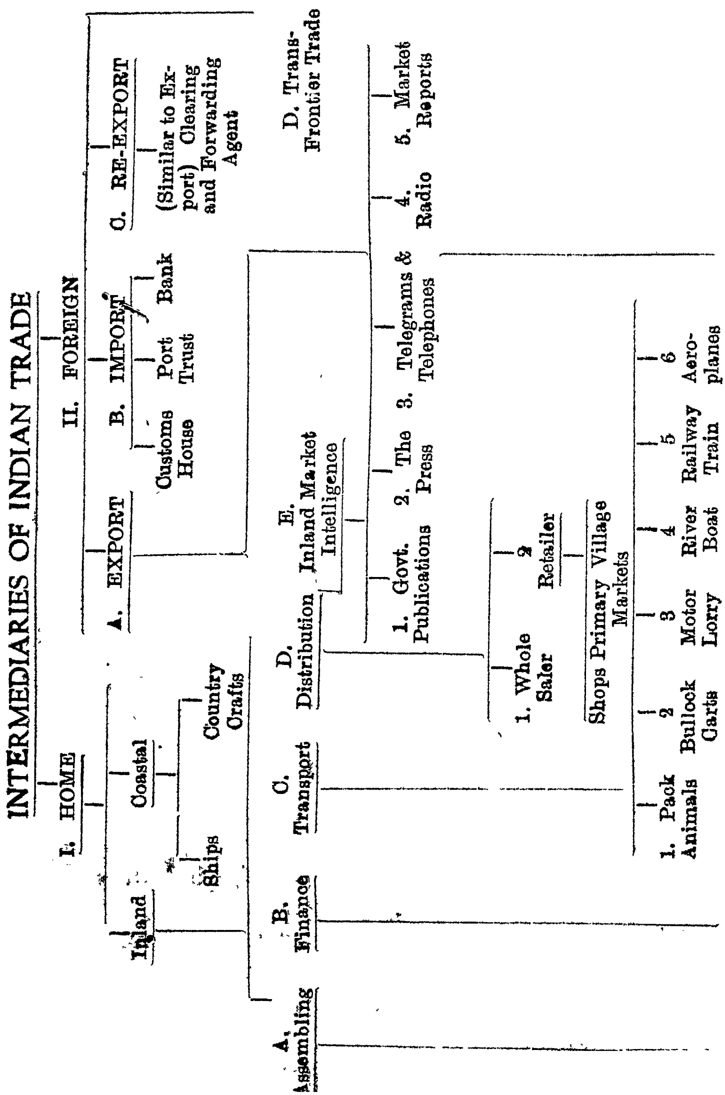
* See *Handbook of Commercial Information for India*. Page 139-141

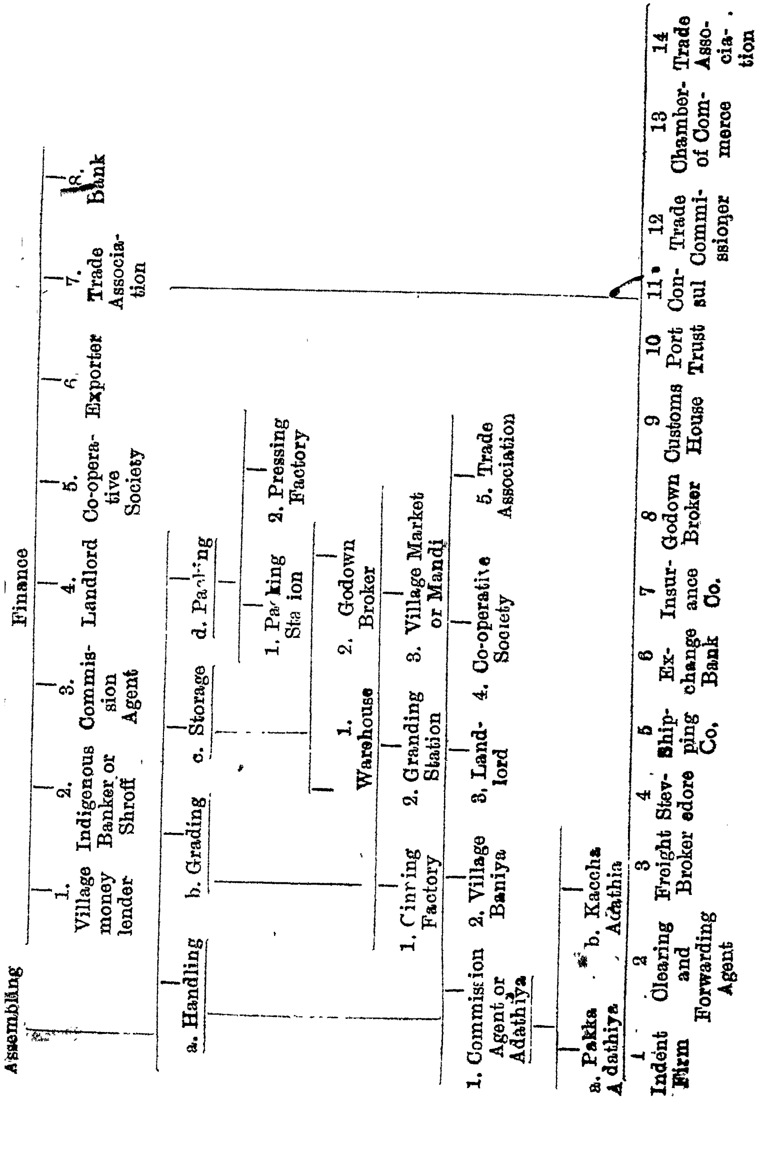
CHAPTER III

INTERMEDIARIES OF INDIAN TRADE

THE exchange of goods and services in modern economic society is characterised by the predominance of the middleman. He has entrenched himself so strongly amongst both the sellers and the buyers that no transaction is either profitable or possible, generally without his intervention. Inspite of all criticism and attempts at elimination, the intermediary of trade has assumed a position of such supreme and indispensable character that he has now been recognised as a necessary evil by society. It will, therefore, be interesting to study the numerous intermediaries who are responsible for the management of our trade.

The various intermediaries participating in India's trade may be most conveniently studied by dividing the nature of trade into two parts; (I) Home Trade and (II) Foreign Trade. The chart on page 42-43 indicates the different intermediaries in India's trade, which will serve as the most suitable plan for the study which it is proposed to undertake in the following pages.


INTERMEDIARIES OF INDIAN TRADE
I. HOME
II. FOREIGN
Inland
Coastal
Ships
Country Crafts
A. EXPORT
B. IMPORT
C. RE-EXPORT
Customs House
Port Trust
Bank
(Similar to Export) Clearing and Forwarding Agent
D. Trans-Frontier Trade
A. Assembling
B. Finance
C. Transport
D. Distribution
E. Inland Market Intelligence
1. Govt. Publications
2. The Press
3. Telegrams & Telephones
4. Radio
5. Market Reports
1. Whole Saler
2 Retailer
Shops Primary Village Markets
1. Pack Animals
2 Bullock Carts
3 Motor Lorry
4 River Boat
5 Railway Train
6 Aero-planes


Assembling
Finance
1. Village money lender
2. Indigenous Banker or Shroff
3. Commission Agent
4. Landlord
5. Co-operative Society
6. Exporter
7. Trade Association
8. Bank
a. Handling
b. Grading
c. Storage
d. Packing
1. Packing Station
2. Pressing Factory
1. Warehouse
2. Godown Broker
1. Ginning Factory
2. Granding Station
3. Village Market or Mandi
1. Commission Agent or Adathiya
2. Village Baniya
3. Landlord
4. Co-operative Society
5. Trade Association
a. Pakka Adathiya
b. Kaccha Adathia
1 Indent Firm
2 Clearing and Forwarding Agent
3 Freight Broker
4 Stevedore
5 Shipping Co.
6 Exchange Bank
7 Insurance Co.
8 Godown Broker
9 Customs House
10 Port Trust
11 Consul
12 Trade Commissioner
13 Chamber of Commerce
14 Trade Association

I. HOME TRADE *

A. Intermediaries of Assembling:

(a) *Handling*:

1. Commission Agents or Arhatiyas
2. Village Baniyas
3. Landlords
4. Co-operative Societies
5. Trade Associations

1. Commission Agents:

The firms dealing with the particular agricultural produce send their representatives to the village for purchasing produce before-hand. These commission agents sometimes act on their own account and sometimes on the basis of agency commission. The commission agents sometimes assume the form of itinerant dealers who are usually petty merchants generally carrying on their trade in several villages purchasing the produce and transporting it to the nearest centre in hired bullock-carts. This type of intermediary in assembling is generally found in the Punjab, United Provinces and Bihar. But generally Arhatiyas handle most of the assembling of Indian produce and are divided into two main classes: (a) the Pakka and (b) the Kacha Arhatiyas. The Pakka Arhatiyas occupy a very important place in India's inland trade. They are generally merchants trading in grain, oil-seeds, cotton and other primary produce. † They have a large capital of their own and finance the Kacha Arhatiyas for assembling the produce. Thus the Pakka Arhatiyas not only help

* See the various reports of the Agricultural Marketing Adviser to the Government of India, particularly on wheat and oil-seeds.

† See the Report on the *Marketing of Wheat in India*—page 182.

assembling but also maintain a direct connection with buyers in important towns. They are the main channel of distribution of agricultural produce in India.

The Kacha Arhatiyas generally are persons of small capital, whose sphere of activity is purely local and who act mainly as a middlemen or intermediaries between the primary producer or seller and the buyer in the large wholesale market. It is interesting to observe that although there is no compulsion to utilise the services of an arhatiya in any market in India, direct negotiations are very rarely entered into, between buyer and seller and the old custom of dealing through commission agents is the general rule, ‡

2. Village Baniyas:

The village Baniyas who are generally petty shop-keepers, provision merchants, money-lenders and traders combined are very important intermediaries in the assembling of Indian produce. They advance loans to the agriculturists who in repayment of the same hand over the produce to them. After coming into possession of crops, they retain a part of it for local consumption and transport the remainder to the nearest assembling station. They are also financed by other agencies such as the Arhatiyas or large whole-sale dealers in near-by town.

3. Landlords:

The emergence of landlords as the intermediaries of our internal trade took place after the recent economic depression, when payment in kind became more common than payment in cash, owing to the heavy fall of agricultural prices. The landlords not only assemble their own share of the produce received

‡ *Ibid* page 130.

as rent, but also collect produce from their tenants against financial loans.

4. Co-operative Societies:

These societies discharge functions similar to those of the commission agents described above. These societies are registered under the Co-operative Societies Act 1912 and their members consist of generally land-owners or cultivators, mortgagees or lease-holders of agricultural lands and registered co-operative societies. The capital of these societies consists of the value of the shares sold, deposits from members, deposits on loans from non-members and profits realised. The policy and general management of these co-operative shops is vested in the hands of committees which form their own directorate and are annually elected in a general meeting. The actual day to day business is, however, conducted by a manager on salary and commission basis. The co-operative societies of the Bombay Presidency handle mostly raw cotton and groundnuts. Like the Arhatiyas' shops, these co-operative institutions arrange for the assembling and sale on commission of the produce brought by members or non-members.

5. Trade Associations:

Sometimes, however, the associations of merchants trading in that particular commodity have their own organizations to assemble the produce bought from the farmers either in the nearest village markets or bought at the source against loans previously advanced to the cultivators. These are assuming a greater and greater importance as intermediaries in inland trade of India in recent times.

DIFFICULTIES OF ASSEMBLING :—

We have seen above the various intermediaries participating in the assembling of produce in the inland trade of India. Now before we proceed to study the financial intermediaries. we shall enumerate briefly the various difficulties which assembling of produce has to encounter in India.

1. The assembling of Indian produce is rendered difficult by the absence of well-planned means of communications.

2. The poor and the illiterate farmer gets a very little part of the final price of the commodity because of the relatively stronger bargaining power of the Arhatiyas, village baniyas and the landlords.

3. The co-operative societies are in a state of decline because of the unfamiliarity of the Indian farmer with the principle of co-operation.

4. The absence of properly regulated markets on a large scale results in many dishonest practices on the part of the market functionaries who ultimately deprive the farmer of his legitimate share of the produce by many cunning devices.

5. There is also the constant danger of the various qualities of produce being mixed with one another.

(b) *Grading :*

After the produce is assembled, the next task is of sorting out the produce according to its qualities. This brings into existence a group of other intermediaries which have assumed great importance during the last few years. Grading is of vital importance not only to give uniformity to the product and thus increase its value but also to ensure the farmer's

getting an adequate share of the final price of the commodity. Until a few years ago, the position of grading in India was very unsatisfactory but under the various legislative measures adopted by Government, there has been some improvement, although there is much to be desired in the matter.

1. Ginning Factory:

In the Bombay Presidency, this is the most predominant intermediary in the matter of processing Indian cotton. The raw cotton is brought to these factories where it is separated according to its quality and ginned into lots of uniform weight and quality. The state of grading in these factories is very unsatisfactory owing to the constant mixing of different qualities of raw cotton and cotton seeds.

2. Grading Stations:

Under the Grading and Marketing Act of 1937, Government has opened grading stations for certain types of produce in the country, for example, eggs, ghee, tobacco, rice, etc. The need for grading of India produce was emphasised by the Royal Commission on Indian Agriculture and the above mentioned commodities are graded and packed according to certain statutory standards. This fact is indicated by putting the word 'Agmark' across the packing of the produce and in recent years it has resulted in enhancing the reputation of Indian agricultural produce and fetching a higher price to the Indian agriculturist.

3. Village Markets or Mandis:

In certain village markets particularly in N. India, produce like wheat and others is separated according to its different qualities within the market place itself.

There are different parts of the Mandis in N. India which are assigned to wheat of different qualities, with the result that a broad classification of the produce indirectlv takes place in the course of assembling the produce.

(*c*) *Storage* :—

Storage is an important stage of the marketing of commodities. The need for storage arises not only because there is some time-lag between production and consumption but also to protect the produce and preserve or enhance its quality. Storage also aids in financing, in as much as, the warehouse-receipt can be lodged as an adequate collateral security with the bank advancing a loan. In India, however, the conditions of storage are very unsatisfactory. There are no properly organized godowns or warehouses, with the result that a great obstacle is put in the way of financing of internal trade.

1. Warehouser :—

The storage of goods brings into existence an intermediary of trade called the warehouser who performs the function of accepting the produce for safe custody in his godowns. The statutory position of the warehouser is that he has to exercise reasonable care and diligence while the goods are in his possession. He has also a lien upon the goods in his custody as long as his godown charges remain unpaid.

2. Godown Broker :—

These are persons who bring the owner of godowns in touch with those merchants who want to hire them.

(*d*) *Packing* :—

Packing of commodities is a very important aspect

of marketing the commodities as it not only protects the commodity, reduces freight and saves storing cost, but also enhances the price of the commodities. Packing in India was a neglected subject until a few years ago when the Royal Commission on Indian Agriculture emphasised the need for the same. The Government, accordingly passed the necessary legislation and, as already noted, puts the word 'Agmark' on certain commodities packed at the grading stations.

1. Packing Stations:—

These are a constituent part of the grading stations already noted above. There is a great need for extending these grading and packing stations to as many places within the country as possible.

2. Pressing Factories:—

These are important intermediaries particularly in the Bombay Presidency where raw cotton is mostly transported from one place to another. After the raw cotton leaves the ginning factories, it is taken to these factories where it is pressed under hydraulic pressure into bales of uniform weight. The present state of these factories is not quite satisfactory owing to their association with many malpractices such as watering of the bales, putting stones at the core of the bales, etc.

B. Finance:—

The distribution of the produce from the assembling to the terminal market is mainly financed by wholesale merchants who also function as commission agents and by shippers during periods when exports are taking place. The actual provision of funds is effected through shroffs or money-lenders and the modern joint stock banks, which, in recent years, have greatly extended their activities.

The actual tendencies in marketing finance ~~were~~ very clearly outlined by the Central Banking Enquiry Committee.* At present the export houses or commission agents raise money from their own banks or the Burra Bazar and finance those up-country traders who have no large capital of their own and who in turn finance the Beparis or Village Mahajans who buy outright from the cultivators for cash or credit previously advanced. As regards the movement of goods from the port-towns to the interior, the commission agents open credit accounts for the merchants in the interior. This system is very defective as it does not bring the Beparis or the Mahajans into direct contact with the central money market, and as it does not permit an easy expansion of credit, since the cash credits or book accounts extending from the exchange banks to the village Baparies or Mahajans are not negotiable or transferable. It has, therefore, been suggested that this system should be reversed and turned to an advantage by enabling the Bepari or the cultivator, with the help of licensed warehouses, to create documented usance bill which may be accepted by registered Mahajans and easily discounted by banks in the central money market and unhesitatingly rediscounted by the Reserve Bank of India. The commission agents should abandon their existing practice of open account credit and adopt the method of creating bills accepted by merchants in the interior. The advantage to the commission agents would be that they would get payment for the bills by discounting them with commercial bank instead of having to wait till the date of repayment of the credit as at present.

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* See the Report of the Indian Central Banking Enquiry Committee 1931 Majority Report—Vol. I, part I, pages 319-20.

Keeping the above general outline of the finance of inland trade, we shall now proceed to study the component parts of the entire financial system. From the chart on page 42-43 we can study the various intermediaries of finance under the following heads:—

1. Village Money Lenders.
2. Indigenous bankers or shroffs.
3. Commission Agents.
4. Landlords.
5. Co-operative Societies.
6. Exporters.
7. Trade Associations.
8. Banks.

1. Village Money Lenders :—

The money-lenders are a very important agency of internal trade finance in India and during the past so many years have entrenched themselves as indispensable adjuncts of the village life of India. The professional money-lenders consist of local or itinirent financiers whereas the non-professional moneylenders, consist of landowners and agriculturists, merchants and traders and other casual money-lenders. There are various complaints against these moneylenders, such as the charging of unconscionable rates of interest, dishonest manipulation of accounts etc. In order to control the money-lenders, a system of licensing has been proposed.

2. Indigenous Bankers or Shroffs :

This is the most important existing intermediary in the finance of the internal trade of India. The shroffs are also traders and must be carefully distinguished from the money lenders. There are various types of shroffs and it is very difficult to say who exactly a shroff is. Most of these, shroffs belong to the Marwari,

Multani or Sindhi communities and have established themselves in large numbers in practically all the chief markets of the country and particularly in the port towns of Karachi, Bombay, Madras, and Calcutta. They finance our inland trade mostly by a system of hundies. Recently there have been signs of decay of this system of indigenous banking.*

3. Commission Agents :—

The large firms of arhatiyas finance the internal trade to a very great extent. Village merchants are largely financed by arhatiyas or commission agents in the same village or at nearby large markets. The arhatiyas act as purchasing agents for their clients in distant places and usually receive one-fourth of the value of goods as earnest money. Sometimes they consign goods to distant places on their own account also. The Kachha Arhatiyas similarly finance the distribution of goods, but only within the limited area of the village itself. The arhatiyas generally advance upto 75% of the value of the produce deposited with them at interest varying from 5 to 10%.

4. Landlords :—

The landlords also sometimes undertake the financing of the movement of goods but only indirectly through co-operative societies or through the kachha arhatiya. Some big landlords, however, advance loans to the agriculturists for transporting their goods to the market centre.

5. Co-operative Societies :—

With very few exceptions indeed, the co-operative movement in India has developed on the lines of credit organizations. These societies ordinarily do

* For a detailed study of the various aspects of indigenous banking see chapter V on the Financing of Trade.

not take any part in the marketing of their members' produce. Their chief function is to make advances mainly for agricultural expenses on the personal security of at least three members jointly and severally. These loans are generally repayable by instalments and the cultivator gets the benefit of a low rate of interest.

6. Exporters:—

Some international firms dealing in agricultural produce provide themselves with funds in India by selling sterling bills of exchange usually drawn at 3 months' sight or telegraphic transfers through the Imperial Bank or any other foreign exchange bank at the various port headquarters of the firms in question.

7. Trade Associations:—

In a few of the larger inland markets, the assembling of produce is also financed by the respective Trade Associations out of the surplus funds lying idle with them.

8. Banks:—

Banks do not as a rule make any advance to cultivators, but loans to merchants or commission agents are generally given on the security of the stocks pledged. The stocks must be insured and stored in places approved by the banks and are subject to periodical inspection by the bank authorities. In large centres a special godown keeper is employed. In addition to advances against pledged stocks, the banks help in financing the internal trade in India by remitting the necessary funds to assist purchases and by discounting demand drafts and hundis. The rate of interest varies according to the money market conditions and the status of the borrower. While the old aversion of certain arhatiyas to patronise the Banks is

gradually disappearing, many instances are encountered of merchants who finance their stocks of produce entirely from private sources and who deprecate the idea of obtaining advances from a bank or any public institution as likely to lower their financial respectability in the eyes of their follow-traders.

In addition to the provision of credit against the security of pledged stock, the banks also buy and discount hundies or drafts, remit money by telegraphic transfer from one centre to another and in general provide all the accommodation necessary for the conduct of internal trade. Banks do not, however, generally advance loans against *mudatti hundies* or currency drafts. Approved firms are, however, allowed to draw upon the banks upto certain limits on the basis of currency drafts or promissory notes. The activities of the banks are mostly confined to the trade in larger cities and towns.

DEFECTS OF FINANCE:—

1. The villager is not provided with cheap and adequate loans.

2. The monopoly of the moneylender and insecurity of loans result in exhorbitant rates of interest.

3. The machinery of rural finance should be brought into close touch with the organised money market in the country so that the available funds can be transferred quickly from the latter to the former.*

C. Transport:—

Transport is the flywheel of the machinery of trade. The provision of cheap and adequate facilities of transport is the primary condition for the development

* For a critical study of the inland trade finance see chapter V.

of trade. The position in India in this respect is very unsatisfactory. We shall now examine the various intermediaries of transporting the goods.

1. Pack Animals:—

In certain parts of the country which is not provided with any modern means of communication, pack animals are used to transport the commodities from one place to another within the country. Donkeys are a common means of transport in N. India whilst mules are also occasionally used. Camels are best suited to unmetalled roads and are therefore very commonly used in Sind.

2. Bullock carts:—

The commonest intermediary of transport in the remoter parts of the country is the two-wheeled cart drawn by a couple of bollocks. During the monsoons, however, this mode of transport becomes rather difficult to be adopted.

3. Motor Lorries:—

In recent years the motor lorry has assumed great importance owing to the economy and speed of transport which it has effected. The goods can be loaded at the senders' godowns and discharged at the receivers' godowns and this eliminates the unnecessary cost of handling. Generally, however, the use of the motor lorry is restricted to goods of perishable nature or to comparatively valuable articles such as bales of piece-goods, etc. The cost of conveyance by motor lorry is very low as compared with that of the railway train, with the result that motor transport has been offering a serious competition to rail transport in recent years. The problem of railroad co-ordination constitutes a separate study by itself and is not quite relevant to the present work.

4. River Boats :—

In many parts of the country served by rivers, the transportation of goods takes place by means of river boats and country crafts which, therefore, constitute an important intermediary in India's inland trade.

5. Railway Trains :—

The railways have in recent years spread almost all over the country and contribute a very valuable quota in the transportation of Indian produce particularly from inland places to the port towns. As already noted, their importance is now increasingly being shared by motor lorries in recent times. There has been considerable criticism on the nature of the part played by rail transport in India's inland trade, the schedule of railway rates,, the classification of goods in particular and the railway policy and administration of Government in general.

6. Aeroplanes :—

They are, however, not common intermediaries of transport but are used for conveyance of passengers and goods of very small bulk and great value.

D. Distribution :—

After the commodities are transported to the port towns by various means of transport outlined above, the next problem is to distribute the produce to consumers. This is generally done through the help of two intermediaries, viz. (1) The wholesalers (2) The retailers.

1. Wholesalers :—

They purchase the produce from the more important arhatiyas in the secondary village markets and sell it to the retailers who directly distribute it to the consumers.

4. Retailers :—

The mode of distribution by the retailers takes two

important forms. They may distribute the commodities either by maintaining shops of different types such as multiple shops, departmental stores etc., or by selling them directly in the primary village markets.

E. Inland Market Intelligence :—

Market intelligence is a very important aspect of business and those who perform this valuable function of distributing the market information to people constitute indispensible intermediaries in the structure of the trade of the country. We shall now proceed to examine the various intermediaries of market intelligence in the inland trade of India.

1. Government Publications:—

These are generally issued some considerable time after the events recorded have taken place. They are accordingly of historical and academical interest rather than of practical utility to trade. Besides, the accuracy of these publications is doubtful. The Provincial Government's Gazette and the Gazette of the Government of India give records of prices of important commodities, whilst the Department of Commercial Intelligence and Statistics publishes the Indian Trade Journal which gives valuable information pertaining to the internal and external trade of India. Periodical crop forecasts are also issued by the Director of the Department.

2. Press:—

Almost all the important daily newspapers have a certain portion devoted exclusively to commercial news and this forms a very valuable source of market intelligence to the members of the public. In addition to these newspapers, there are certain periodicals devoted exclusively to trade information such as Commerce, Capital, Indian Finance, etc. These

periodicals give valuable information and by their well-studied criticisms help to direct business opinion and judgment in appropriate directions.

The postal, telegraph and the telephone system afford a valuable service of disseminating trade information. They keep the remotest parts of the country in constant touch with organized market in the port towns and most of the important trade communications are despatched with the help of the postal and other mechanism.

4. Radio :—

In recent years, however, the Government of India has made an attempt to transmit trade information to the villages by means of special broadcasts from A.I.R., New Delhi. It has been reported that this innovation has been exhibiting signs of great promise in the near future.

5. Market Reports :—

In addition to the various above mentioned intermediaries of market information, there are innumerable market reports printed in the different vernaculars and distributed amongst the important markets all over the country. These are probably of the greatest practical use to Indian traders in general, and the Indian farmers in particular.

II. FOREIGN TRADE

A. Export Trade :—

We have studied above the various intermediaries participating in the inland trade of India. We shall now proceed to examine the other intermediaries which render valuable assistance in the foreign trade of India.

1. Indent Firms :—

These are mainly responsible for bringing the Indian buyers in touch with the foreign manufacturers. In many cases they act as the agents of the foreign manufacturers and send the indents of the Indian importers to their principals who fulfil the contract. In India these firms are mostly non-Indian and predominantly British. The various characteristics of these Indian firms will be studied in a subsequent chapter on the Mercantile Houses in India.

2. Clearing and forwarding agents :—

These are firms of agents who are engaged in clearing the imports and forwarding them to their destinations on behalf of their principals particularly in the mofussils. These may be generally divided into two classes: (i) the Customs Dalals who are persons authorised by the Customs to sit in the Customs' premises and conduct their clearing and forwarding operations on behalf of their clients, (ii) the firms of clearing agents such as Messrs. Thos. Cook & Sons Ltd., Tulsidas Khimji & Co., and others. Whilst the Indian clearing and forwarding agents transact only the clearing and forwarding business proper, most of the non-Indian firms of clearing and forwarding agents, who are also bankers, undertake, in addition, foreign exchange business, issue of travellers' cheques etc. Some of the important firms of this type in Bombay are Messrs. Cox & Kings, American Express Co. (Inc.) etc.

3. Freight Brokers :—

These are persons who undertake to obtain space for your cargo in the steamers. They are in constant touch with the steamship companies who sometimes

engage them on a contract basis to ensure a full load for the steamer.

4. Stevedores :—

This is an intermediary employed generally by the shipping agents and entrusted with all the operations connected with the loading and unloading of cargo. As soon as a steamer comes to the port they have to lodge an application giving full details of the ship with the Customs Authorities on behalf of the steamship agent. They have to arrange for pilotage to tow in the steamer with the port trust authorities. As soon as a steamer touches the wharf they have to arrange for cranes and coolies and discharge the cargo on the wharf and give delivery of the same to the importers according to the instructions of the steamship agents. As regards the export cargo, they have to load the goods into the steamer according to the stowage plan and also obtain port clearance for the steamer from the Customs authorities. Sometimes they are also responsible for the victualling arrangements of the ship and the crew. They are thus a very important class of intermediaries in the foreign trade of any country. The important firms in Bombay who perform stevedoring functions are Messrs. Ardeshir B. Cursetji & Sons, Messrs. Hill, Son & Knox and others.

5. Shipping Companies :—

These are the carriers of trade and as such constitute indispensable intermediaries of the trade of any country in the world. In India the shipping companies engaged in foreign trade are invariably non-Indian, particularly British. The need for building up an Indian Mercantile Marine has generally been stressed by those economists who have the economic

welfare of India at heart. There have been innumerable complaints against these foreign companies such as those pertaining to shipping conferences, deferred rebate system and their operations are generally supposed to promote the welfare of countries other than India. The various aspects of the Indian shipping problems were examined by the Indian Mercantile Committee of 1923 which made valuable recommendations to eliminate the unfair foreign competition and to foster a prosperous ship-building industry in India. The need for a mercantile marine has been very accurately felt during the present war period and it is yet to be seen how far India would be permitted to take advantage of the opportunity afforded by the war. The foreign shipping companies form themselves into a shipping ring or conference for the purpose of regulating or restricting competition in the carrying trade on a given trade route or routes.* Some of the shipping companies in Bombay are Messrs. Mackinnon, Mackenzie & Co., acting as agents for the P. & O. and B. I. S. N. Co., Ltd., and Messrs. Forbes, Forbes Campbell & Co., Ltd., and Messrs. Anchor Line Ltd.

6. Exchange banks:—

These banks are of invaluable importance in the foreign trade of a country and indirectly act as indispensable intermediaries in the process of the export and import of commodities. They have assumed particular significance in recent years owing to constant fluctuations in the international exchanges. When an Indian merchant desires to import goods, he approaches these exchange banks who agree to

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*For a detailed discussion of the Indian Shipping problems and *Economics of Shipping* by S. N. Haji and the Report of the Indian Mercantile Marine Committee 1923.

provide him with the necessary amount of foreign exchanges at specified rates of exchange at some future date. All the Exchange banks in India are non-Indian in character particularly British. These exchange banks open credit in favour of and on behalf of Indian merchants and discount their documentary bills of exchange when the commodities are exported Indian banks do not as a general rule undertake this business and the various aspects of this question will be examined in full details in the chapter on the financing the foreign trade of India. Some of the important exchange banks in Bombay are: The Chartered Bank of India, Australia & China; The Mercantile Bank of India, The Yokohama Specie Bank and National City Bank of New York.

In addition to these banking firms transacting foreign exchange business, there are many private firms who act as foreign exchange brokers. The well-known private firms of foreign exchange brokers in Bombay are those of Vasant N. Hate and Mecklai & Co.

7. Insurance Companies:—

These issue Marine Insurance policies covering the goods exported to foreign countries. Indian Insurance companies in general restrict their business to life, fire, etc., while the companies transacting Marine Insurance business are invariably non-Indian, particularly British. These companies undertake to indemnify the exporters against loss of or damage to cargo due to the perils of the sea. In this manner they act as the risk-bearers between the exporters and importers and may, therefore, be regarded as important intermediaries in the foreign trade of the country. The important Marine Insurance Companies in Bombay are:— The

South British Insurance Company, the Prudential & Industrial and The Sun Life Insurance Company of Canada. It is customary also for some of the large Indian firms to insure their goods in their own Insurance Departments and thus effect an economy in the cost of transporting the goods to foreign countries.

8. Godown Brokers:—

When the merchants bring their cargo from up-country centres to port towns like Bombay, the godown brokers put them in touch with the owners of godowns to enable the merchants to store their goods pending shipment.

9. Custom House:—

This is the Government organization entrusted with the charging and collection of customs duties. Its offices are situated on the Ballard Estate. At the head of the Customs House is the Collector of Customs, under whom there are Assistant Collectors who are concerned mainly with the more responsible duties of administration. For the daily routine work, the Customs organisation is divided into several departments, the most important of which are (a) The Export Department which passes shipping bills, grants port clearance to ships and receives cargo manifests from the steamship agents. At the head of this department, there is one of the Assistant Collectors. (b). Import department which is connected with the passing of Bills of Entries for consumption, receiving import cargo manifests from steamship agents etc. (c). The Appraising Department which appraises the goods and levies appropriate duties according to the Customs tariff. A special set of officers known as Appraisers and Examiners are required to be in personal attendance in the Port Trust Docks

where the steamers load and unload cargo. (d) The Preventive Department: which is entrusted with the prevention of export or import of unauthorised cargo and this important function is discharged by a set of officers known as Preventive Officers. (e) The Cash Department: which is entrusted with all cash receipts and cash payments in the course of Custom House business. All duties on goods have to be paid at the counter of this department. If, however, the payment of duty is to be adjusted through the personal deposit accounts maintained by many firms with customs authorities, then the necessary entries are made by the Accounts Department in their books. (f) The Laboratory: to test the ingredients and composition of certain commodities exported or imported. (g) The Controller of Exports and Imports: owing to the outbreak of the present war, a new department has been opened under a Controller of Exports/Imports in order to verify that the goods exported from and imported into India do not help the enemy countries. Whenever the Indian merchant desires to export any commodity he must submit an Application for Export to this department and obtain the necessary licence from the Commerce Department, New Delhi.

We shall have to deal with all these departments in Chapter X on *The Technique of Trade.*

10. Port Trust:—

The Bombay Port Trust is a semi-Government body entrusted with the administration of the Bombay port. It has various departments such as Engineering, Railway, Docks, Land and Bunders Departments etc. Whenever a steamship comes to the port of Bombay, the Port Trust has to provide pilotage to tow in the steamer and assign particular sheds where the cargo is

to be loaded or unloaded. The Port Trust maintains very large sheds serially numbered, where it allows the exporters and importers to stack their packages. The Managers of the Port Trust Shed supervises the loading of cargo along with the Preventive Officers while he gives delivery of the cargo to the consignees along with the Stevedore. The Port Trust provide suitable cranes and coolies for the loading and unloading of cargo at the Port Trust wharf. It also provides warehouses where consignees can store re-export or transhipment cargo, pending the arrival of the on-carrier. It will thus be seen that the Port Trust authority plays a very important role in the export and import of goods.

11. Consuls :—

These are the representatives of foreign countries in India and they may also be regarded as intermediaries of great importance in the foreign trade of the country. The consuls collect valuable trade information in India and pass it on to their country. Similarly, they make available to the Indian merchant all information about the possibilities of Indian trade with their respective countries. Some consuls like the American Consul are required to great Consular Invoice certifying that the goods may be imported into their country without detriment to their nationals. They also publish periodical reports which are of great practical use to businessmen in India and abroad. No goods can generally be exported to foreign countries without the consular invoice from the respective consuls concerned. These consuls charge a small fee, known as the 'Consular Fee' to the exporters for granting the invoice.

12. Trade Commissioners :—

These are also the representatives of foreign countries in India similar to the consuls; but their field of activity is limited only to trade and does not cover political and social matters like that of the consuls. These trade commissioners also publish periodical reports containing very useful information pertaining to trade.

13. Chambers of Commerce :—

The general object of such institutions, is to foster a sense of co-operation and unity amongst the traders, but they also act as important intermediaries of the trade of the country. They place the Indian merchant in contact with the foreign countries and generally perform the important task of exploring the possibilities of trade with other countries of the world. They have established their branches in foreign countries to collect and distribute very useful information relating to trade in general. Some of them periodically send trade missions to foreign countries to further the trade relationships of their own countries with other countries of the world. In the daily routine of foreign trade also they perform an important function of an intermediary of trade, e.g. the Bombay Chamber of Commerce and recently the Indian Merchants Chamber measure the packages to be exported and grant certificates of measurement in order to facilitate the calculation and payment of steamer freight.

14. Trade Associations :—

Sometimes, however, the trade associations act as very useful intermediaries by transacting business on behalf of their members.

B. Import Trade :—

The intermediaries of the import trade of India are

similar to those of the export trade and hence need not be repeated here.

C. Re-export Trade :—

The intermediaries of the re-export trade are also similar to those of the export trade and have already been dealt with above.

THE CHARACTERISTICS OF INDIA'S TRADE

THE principal characteristics of India's trade may be summarised as follows :—

1. Composition of Trade :—

The following table* illustrates the important characteristics of the composition of the trade of India.—

	(In crores of rupees)							
	Pre-war		War		Post-war		1942-43	
	Expts.	Impts.	Expts.	Impts.	Expts.	Impts.	Expts.	Impts.
I. Food, Drink and Tobacco	63.0	21.8	60.0	26.4	60.0	37.8	47.0	7.6
II. Raw Materials and articles mainly mfd.	104.7	10.1	86.4	9.9	145.0	61.9	42.7	51.9
III. Articles mainly or wholly mfd.	50.6	111.8	68.4	108.2	78 0	81.2	95.3	49.6
IV. Living Animals	0.3	0.4	0.2	0.5	0.3	0.2	0.2	...
V. Postal Articles	0.9	1.7	1.3	2.8	2.5	4.4	2.4	1.4

From the *Review of the Trade of India for* 1942-43—Page 59.

The above table indicates the general features of the foreign trade of India. We see therefrom that the exports of India consist predominantly of food-stuffs and raw materials; while the imports consist mainly of manufactured articles. This indicates the texture of the economic life of the country which, being inadequately industrialised, the raw materials have to be sent to foreign countries to be manufactured into finished articles. Recently, however, there has been a considerable decline in the exports of raw materials and a noticeable rise in the imports of raw materials. The exports of raw materials declined to Rs. 42.7 crores in 1942-43 from Rs. 104.7 in the pre-war period. Similarly, imports of raw materials rose from Rs. 10.1 crores in the pre-war period to Rs. 51.9 crores in 1942-43. The imports of manufactured articles correspondingly declined from Rs. 111.8 crores in the pre-war period to Rs. 49.6 crores in 1942-43. All these changes combined together give a clear proof of the increasing industrialisation of the country. The exports of foodstuffs are also recording a declining tendency from Rs. 63.0 crores in the pre-war period to Rs. 47.0 crores in 1942-43.

2. Direction of Trade :—

From the table below we see that the bulk of India's exports is directed to the United Kingdom, while India purchases most of her requirements of manufactured articles from the same country. This can be further explained by saying that India sends her raw materials to England who manufactures them into finished products and sends them back to India. The next important customer of India is the U.S.A. With the outbreak of war with Japan the trade with that

country has practically ceased. *A general feature of the year is the diversion of trade from far distant countries (e.g. American countries) to neighbouring or less distant countries (e.g. Ceylon, Middle East countries). The share of the U. K. in recent years has however, been declining and India has been developing greater trade relationship with other Empire countries. It will also be noted from the above table that a major part of

	(In crores of Rupees) 1942-43	
	Exports	Imports
United Kingdom	58 ...	30
Burma	... ...	1
Other British possessions	70 ...	30
Total British Empire	128 ...	61
Europe	3 ...	1
U. S. A.	30 ...	19
Japan	... ...	...
Other foreign countries	34 ...	29
Total foreign countries	67 ...	49
GRAND TOTAL	195 ...	110

India's foreign trade is carried on within the British Empire rather than with non-Empire countries. In 1942-43 the total exports to and imports from the British Empire were Rs. 128 crores and Rs. 61 crores respectively as compared with Rs. 67 and Rs. 49 crores to non-Empire countries.

3. Balance of Trade :—

Generally India has a favourable balance of merchandise but an unfavourable balance of payments. The favourable balance of trade indicates the bountiful resources with which our country has been gifted by Nature, whereas the unfavourable balance of payments signifies the political status of the country. The

*Ibid p. 100.

following table shows India's Balance of Trade during the last four years :—

INDIA'S BALANCE OF TRADE

+ Favourable
— Unfavourable

	(In crores of Rupees)
1938-39	+ 17
1939-40	+ 49
1940-41	+ 42
1941-42	+ 80
1942-43	+ 84

Thus, although India has a favourable balance of trade in merchandise and treasure, her balance of accounts i. e. her balance of commercial and non-commercial transactions taken together is unfavourable. As a result of India's political position, England imposes upon her the obligation to make certain payments to the latter country. Every year India has to make huge payments to England for various purposes such as interest on British capital, repayments of British loans, profits of British exchange banks and insurance companies and freight charges paid to British shipping companies operating in India. When all these items are taken into account, India finally becomes a debtor nation instead of being a creditor nation to which she is really entitled by virtue of her favourable balance of trade in merchandise.

4. Home Trade :—

The most important characteristic of the home trade of India is the general neglect of and apathy towards its development. The approximate annual value of the home trade of India has been estimated at about Rs. 2000 crores which is about twice the value of the foreign trade. But in spite of this overwhelming importance, the general indifference

towards its development is indeed an unfortunate feature of the home trade of the country. Adequate transport facilities are not provided for this trade. It is not financed properly and systematically. Furthermore, no systematic statistics are collected in reference to this valuable part of the country's economic life so that, business decisions are not only rendered difficult, but also any coherent Government trade policy becomes an impossible matter. Whereas the foreign trade receives all possible encouragement, the home trade receives at the most a step-motherly treatment. An obvious explanation of this feature of our home trade may be sought elsewhere than in the economic life of the country.

5. Coastal Trade:—

Another equally important aspect of India's economic life is the considerable movement of goods along her extensive coast-line. The coastal trade forms an important section of the home trade of India and is mostly carried on between the ports of Karachi, Bombay, Cochin, Tellicherry, Calicut, Colombo, Madras, Calcutta, and Rangoon. The important articles of coastal trade are rice and mineral oil from Rangoon, jute and jute manufactures and coal from Calcutta, cotton and cotton manufactures from Bombay and wheat and other food grains from Karachi.

The coastal trade in almost all the important countries in the world such as the U.S.A., France, Spain, Italy, Japan and others is exclusively reserved for ships belonging to and registered in their own country. But in India we find that there is no such monopoly being given to the national ships; but the privilege is shared with some foreign concerns particularly the British.

Thus the Scindia Steam Navigation Co. Ltd., has entered into a Conference Agreement with the British India Steam Navigation Co. Ltd., under which both abide by a common tariff of freight rates and other important conditions for the carriage of specific cargo.

Another characteristic of the coastal trade is that the major part is constituted by cargo coming to important exporting ports like Bombay and Calcutta from smaller ports along the coast for being exported to foreign countries. Thus, for example, the Malabar Coast ports send their export cargo to Bombay for purposes of export, because direct sailings are not available particularly in recent times. The coastal ports, therefore, act merely as intermediary ports for export trade of India and there is a great need for developing the trade between one coastal port and another.

The absence of suitable ports along India's extensive coast line is another unfortunate features of India's coastal trade. Although at present India has a favourable harbour line, it is not properly developed to provide anchoring ports for large ocean steamers.

6. Land Frontier Trade :—

This is carried on mostly with the countries on the N.W.F. border of India such as Afghanistan, Baluchistan, Persia and also Tibet in the North East. The articles of trade generally consist of living animals, fruits, nuts, skins and furs, raw cotton, spices, raw wool and wool manufactures in imports into India and of boots and shoes, cement, instruments and apparatus, leather, machinery and mill-work, cotton, silk and rubber manufactures, tea and sugar in the exports from India. The noteworthy feature of this frontier trade is the general neglect of its development.

In spite of the promising prospects which characterise this trade, no effort is being made to increase its volume. The frontier countries being industrially more backward than India offer very prospective markets for her manufactures. India can enrich herself by re-enacting the pages of her own economic history.

7. Re-export Trade :—

Re-export trade is a very important characteristic of India's trade from a very long time owing to the favourable geographical position which she occupies in the Indian ocean. She is at it were the gateway of the vast Continent of Asia and she has consequently assumed a supreme position both in regard to the goods coming from and to the Far East. About half of the re-export trade of India is carried on with Asia and the principal articles constituting this re-export trade are fish, fruits, provisions, tea, sugar, liquors, hides, skins, arms and ammunition, chemicals and drugs, machinery, railway parts etc. The approximate value of India's re-export trade varies from between about Rs. 10 to 15 crores. The principal countries participating in India's re-export trade are the U. S. A., Burma, Arabia, Iraq, Ceylon, Egypt and the U. K. in the order of their importance. The important provinces through which this trade passes are Sind, Bombay and Bengal in the order of their importance.

It will be readily seen from the above that the value of re-export trade is very small as compared with the value of the total trade of the country. The insignificance of the re-export trade inspite of India's favourable geographical position may, therefore, be regarded as a significant characteristic of her foreign trade.

8. Prices of Exports and Imports* :—

	Price Level	
	Exports	Imports
1940-41	130.3	126.7
1941-42	155.9	153.4
1942-43	184.6	192.9

Another important tendency in the foreign trade is a considerable amount of adjustment in the price levels of exports and imports as is evident from the above table.

9. Machinery of Trade :—

Probably one of the most disconcerting features of the trade of India is that the machinery of trade of India is in the hands of non-Indians, particularly the British. India has no mercantile marine of her own, with the result that her foreign trade is carried on mostly with the help of British ships. Similarly India has no exchange banks to finance her foreign trade with the result that. her foreign trade is also financed mostly by the British banks.

10. Finance of Trade :—

The above point leads us to the characteristic features of the finance of India's foreign trade. The export trade of India is financed exclusively by means of credits opened through the non-Indian exchange banks operating in India. Thus, the insignificant share of Indians in the finance of India's foreign trade is a feature which should deserve a very careful attention. Furthermore, in regard to the import trade of the country, the foreign bills of exchange are invariably drawn not in Indian currency, but in the currency of the exporter. This is indeed an unusual

* From the Reserve Bank of India's Report on Currency and Finance for 1942-43—Page 16.

feature of the foreign trade of any country, the common practice in the world trade being that the exporter draws the bill of exchange in terms of the importer's currency. That is because our country is artificially tied to sterling, and has, therefore, no independent status in world exchanges. This absence of Rupee Bills in India's foreign trade is a significant feature particularly from the standpoint of the development of an organized bill-market in India. The problem of the introduction of Rupee bills and of increasing the share of Indians in the finance of India's trade may be postponed to the next chapter.

11. Organisation of Trade:—

Another note-worthy feature of India's foreign trade is the absence of a closely knit and widely spread organisation for the developments of India's foreign trade. Most of the countries of the world have sent their Consuls, Trade Commissioners in all the important parts of the world to explore the possibilities of trade relationships with their own countries. Recent experiences show that this is an indispensible condition for the development of the trade of any country. India, however, has no such widely spread organisation to develop her foreign trade beyond Trade Commissioners appointed in a few places like Milan and London.

12. Per Capita Trade:—

The small per capita Trade of India is another noticeable feature of her foreign trade. It is a clear indication of the general state of economic backwardness and poverty within the country. The following table* indicates the value of trade per head of

* From N. K. Katiha—*International Trade and Foreign Trade of India*—page 61.

population of some of the important countries of the world:—

	Countries	Year — 1925 Rs.	a.	p.
1.	India	18	3	0
2.	Russia	24	10	0
3.	United Kingdom ...	386	2	0
4.	France	232	3	0
5.	Germany	230	11	0
6.	Italy	106	5	0
7.	U. S. A.	136	3	0
8.	Japan	39	7	0
9.	China	5	8	0

SUMMARY

We may now summarise the principal characteristics of India's trade outlined above.

1. Predominance of food-stuffs and raw materials in exports and of manufactures in imports.

2. Restriction of Indian trade within the British Empire, particularly the U.K.

3. Favourable balance of trade but an unfavourable balance of payments.

4. The great volume of Home Trade as compared with Foreign Trade.

5. No reservation of Indian coastal trade for Indian ships.

6. The insignificance of Land-Frontier Trade.

7. The insignificance of Re-export Trade.

8. A considerable adjustment of the prices of exports and imports.

9. The machinery of Indian trade is in the hands of non-Indians, particularly British.

10. The insignificant share of Indians in the finance of foreign trade.

11. The absence of any systematic world-wide organisation for the development of India's Foreign Trade.

12. The low figure of trade per head of population.

CHAPTER V

FINANCE OF TRADE

THE mechanism of the finance of the trade of India may be studied under the following two heads.

(i) The finance of home trade i.e. of the movement of goods from inland places to the port towns and vice versa, and (ii) the movement of goods from the Indian port to the foreign port and vice versa.

I. FINANCE OF HOME TRADE

As regards the movement of goods from the inland places to the towns*, the movement from the village to the *Mandi*, is financed by the adatiyas, zamindars, moneylenders, indigenous banks and bankers, co-operative societies and exporters. The Imperial Bank of India and the Indian Joint Stock Banks also help in financing in villages by lending money to commission agents and export houses in *mandis* against the pledge of stock, in their godowns, of the commission agents and exporting houses who in their turn finance the village producers. The foreign exchange banks have no direct part in the financing of the home trade at

* (i) See the Report of the Indian Central Banking Enquiry Committee Vol. I, Part I paras 433-435, page 319 to 321.

(ii) Report on the Marketing of Wheat in India—pages 166 to 171 and 356 to 362.

this stage, but when the produce is moved from the *mandis* to the exporting ports, the exchange banks along with the Imperial Bank of India and the Joint Stock banks take a considerable part in the financing of the internal trade of India. The indigenous banks and some of the exchange banks make advances against produce in godowns, but the exchange banks usually limit their accomodation to such firms as do exporting business. In the *mandis* the exporters usually take delivery of the produce through a shroff or a guarantee broker who finances the payments and receives a commission from ¼ to ½ % for the transaction. The shroff is paid for the price of the commodity by means of demand drafts drawn on the exporters' firm at the port and signed by the firms' representatives at the larger centres. These drafts are purchased by the Imperial Bank of India, the indigenous banks and the exchange banks, and the shroff thus receives funds to finance further transactions.

In regard to the movement of goods from port towns to the inland places, it is generally financed by Adatiyas or commission agents, shroffs and the Indian Joint Stock Banks. At inland importing centres like Amritsar, Cawnpore and Delhi, the import bills are mostly D.P. Bills and are paid on or before the due date by the importers, who in case of need may obtain facilities for the payment of bills by means of loans granted by the Exchange or Joint Stock Banks. The loans are given against a margin of 20% or more of the value of goods plus all import charges, and usually carry interest at about the Imperial Bank rate. After taking delivery of goods, the importers sell the goods to dealers either for cash or credit from 2 to 4 months with interest at 6% or more per annum. The

wholesale dealers in the larger distributing centre similarly deal with the retail dealers in the villages by selling to them either for cash or on credit. In the latter transactions commission agents play an important part; they buy for the larger village dealers who sell to the smaller village dealers who in their turn sell to the agriculturists against their promise to pay when the crops are sold. The rates charged by the commission agents for this finance vary from 6 to 9%.

IMPORTS OF BULLION

Most of the bullion is imported into Bombay by bullion dealers, a majority of whom are members of the Bombay Bullion Exchange Ltd. These dealers send orders for their requirements either direct or through exchange banks or bankers. The orders are placed generally in London, although in the case of silver the orders are to a certain extent sent directly to New York. The representative of the exchange bank or broker in London or New York purchases the required amount of bullion as per cable advices from Bombay and informs his principals in Bombay by return cable. As soon as this advice is received from London or New York, a remittance if arranged by the Bombay dealer through the exchange bank and a contract for the purchase of bullion by telegraphic transfer is entered into by the exchange bank and the dealer. The contract with the exchange bank is made by the dealer through certified bullion brokers. The dealer gives complete written instructions as regards the person to be paid and the time of payment in London or New York, to the exchange bank in Bombay which in its turn passes on the instructions to

its foreign agent. When the bullion is discharged in Bombay, the exchange bank clears the consignment and stores it in its underground cellars and immediately calls upon the importer to pay the necessary amount to the bank and take delivery of the bullion within a period of seven days. The exchange bank charges the dealer interest at the Bank of England rate subject to a minimum of 4% per annum from the date of payment in London or New York to the date of receipt of payment from the dealer in Bombay. The exchange banks and the joint stock banks also grant loans against bullion.

THE AGENCIES OF THE FINANCE OF HOME TRADE

From the mechanism of home trade finance outlined above, it will be seen that the various agencies financing the home trade of India may be broadly classified under the following heads. (1) The Commission Agents or Arhatiyas, (2) The Indigenous Bankers or Shroffs, (3) The Banks, and (4) Exporters.

1. Arhatiyas :—

As already noted in chapter III the arhatiyas occupy a very important place in financing the movement of goods in the internal trade of India. There are two types of arhatiyas or commission agents; the kachha arhatiyas or small commission agents and the pucca arhatiyas or the large commission agents. Generally the operations of buying and selling on commission are not undertaken by one and the same firm of commission agents. A commission agent who, however, combines both buying and selling in his sphere of business activity is generally known as a kachha-pucca arhatiya. The commission agents advance loans to

the wholesalers, the small arhatiyas, the village merchants and the cultivators. The arthatiyas generally act as middlemen between the seller and the wholesale buyer and pay cash in full as soon as the weighment is complete. The pucca arhatiyas are firms of long-standing repute and credit and they not only deal in a number of commodities such as grains, ghee, sugar, etc. but frequently operate as shroffs, making advances and discounting *hundis* or drafts and bills of exchange. Very frequently the pucca arhatiyas also accept deposits generally at about 6% from their relations and friends.

The mode of financing the internal trade generally consists of current accounts maintained with these firms by their clients at other markets and the commission agents purchase the produce with their clients' and their own money. When, however, the arhatiyas consign goods to distant markets on their own account for commission-sale, an advance of anything between 70 to 85% of the value of the goods is drawn against the consignees. This advance along with interest thereon is adjusted when the final accounts of the entire consignment are made out.

The kachha arhatiyas, however, restrict their financial activities to giving loans to the village merchants and thus may be regarded as being responsible for financing the village trade in the country.

2. Indigenous Bankers :—

These constitute the next important agency of the finance of the home trade of India. More than half of the volume of home trade is financed by these indigenous bankers. In view of this supreme position of the indigenous bankers it is necessary to examine

the various aspects of their business with particular reference to the finance of internal trade.

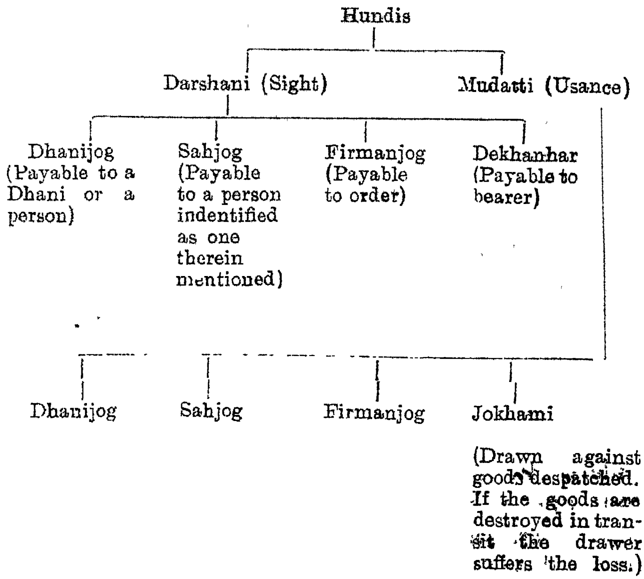
The Majority of the Central Banking Enquiry Committee defined the indigenous banker as any banker other than the Imperial Bank, the exchange banks, joint-stock banks, the co-operative societies and included in the expression "any individual or a private firm receiving deposits and dealing with hundis or lending money". Mr. Manu Subedar* felt that whoever coined the words "indigenous bankers" has not done a service to India. In his opinion the designation is neither happy nor correct. Mr. L. C. Jain, in his "Indigenous Banking in India" observes that it is difficult to say who an indigenous banker is. He is not required to register himself under any law of the relam. There is, therefore, no definition of the term 'indigenous banker' nor does the Census contain any definition. The problem is complicated because in India many persons who are called "bankers" do nothing beyond lending out their own personal or family funds. Mr. V. Ramdas Pantulu in his Minute of Dissent to the C. B. E. Committee wrote:—

"Notwithstanding the fact that the designation indigenous banker, thus no longer carries with it implication of a hereditary or traditional occupation, it does carry with it a notion of historic continuity of the system of banking which has long served the people of this country well and truly and which still serves them largely, though not as efficiently as the altered conditions of our social economy require"†

* See his Minority Report to C. B. E. Committe's Report para 106 page 100.

† Minute of Dissent to the Report of the C. B. E. Committee by Mr. V. Ramdas Pantulu—para 3 page 524.

These indigenous bankers as already noted belong mostly to the Marwari, Multani or Sindhi communities. The *chettiyars* of South India are also a powerful and influential factor in the finance of the internal trade of South India and of Burma where many of them have gone and settled from a very long time. The actual mechanism of finance of trade by indigenous bankers consist mainly of discounting hundis, demand drafts or bills. The following chart ‡ illustrates the various types of hundies used by indigenous bankers in the finance of internal trade :—



‡ From *Indigenous Banking in India* by L C. Jain—page 73.

1. Darshani Hundi:—

The Darshani hundies are the sight drafts or ordinary day to day business similar to the cheque in the organized money-market. Darshani hundies are generally payable on presentation but in some markets, a few days of grace are also allowed.

2. Mudatti Hundi:—

The mudatti hundi is drawn for a considerable period from 21 to 61 days but generally not exceeding a year.

TYPES OF INDIGENOUS BANKERS

It is very important to classify indigenous bankers in order to facilitate their being brought into contact with the organised money market through the Reserve Bank of India. From this standpoint, the indigenous bankers may be divided into the following groups:—

1. Those who confine their business to banking proper.
2. Those who are principally traders or merchants, but employ their surplus funds in banking business.
3. Those who are both bankers and traders and cannot fall under the above two categories.

OPERATIONS OF INDIGENOUS BANKERS

The indigenous banker finances agriculture not directly but through local Sahukars or money-lenders. In Burma, however, the indigenous banker sends one of his employees to the village to transact these operations. In Bihar or Orissa the indigenous banker lends to grain merchants and *Goladars*, and advances money directly to Zamindars and Ryots. Financing of agriculture is almost a monopoly of

indigenous bankers throughout the greater part of India. The great advantage of this system to the agriculturists is that the lending operations of indigenous bankers are not accompanied by any formalities or delay and the cultivators can get an easy access to the bankers and a quick loan from him. The indigenous banker has also kept himself in close personal touch with the trader and the small industrialist. It is as a result of this relationship that the indigenous banker undertakes considerable general banking business such as buying and selling remittances, discounting hundies, receiving deposits and advancing loans against stock-in-trade. The indigenous banker does not finance the large scale industry because he is not only ignorant of this aspect of business but is prevented from doing so by the comparatively meagre deposits which he receives. In Indore, Bombay, Ahmedabad, Calcutta and other industrial centres the indigenous bankers have adopted the practice of depositing their money for a fixed period with the textile mills and obtain a fairly good rate of interest. As regards the financing of cottage industries, the indigenous banker usually advances money to the artisans against utensils, ornaments etc. but more often on personal security. Sometimes a condition is laid down that the artisans should sell to the banker his finished products at concessional rates.

So far as the financing of internal trade is concerned the indigenous banker assists in bringing the agricultural and industrial products to the markets not only by acting as a commission agent but also by using demand hundies to the traders or by discounting their hundies and thus enabling them to send money to trading centres. The very important

part played by indigenous bankers in financing India's internal trade will be quite evident from the following observations made by the Bombay Provincial Banking Inquiry Committee in their Report to the Central Banking Inquiry Committee of 1929 :—

"It is a fact universally recognized that although the share of the indigenous bankers in financing the foreign trade is negligible, amongst the agencies financing agriculture and the internal trade and small industries of the province, they occupy a predominant position. On a conservative estimate their share in this business may be computed at 70 to 80 per cent of the total."

ALLIED BUSINESS

A majority of indigenous bankers combine the business of banking with some form of trade and the capital employed in banking cannot be distinguished from that employed in trade. The indigenous bankers' side business varies from province to province. Generally indigenous bankers are grain dealers, general merchants, commercial agents, brokers, gold-smiths, jewellers, landowners, industrialists and traders. They also act as bailees of goods and as trustees for religious and charitable institutions.* Mr. L. C. Jain has expressed the opinion that these allied businesses more often than not, have tended to become primary and more important than money-lending, in recent years.

CAUSES OF DECLINE

The causes of this unfortunate decline may be

* It is this combination of allied business with banking business that is proving one of the greatest obstacles to the solution of the problem of linking the indigenous bankers with the R. B. of India.

traced to the competition of joint-stock and co-operative banks. The indigenous bankers having lost a part of their banking business are trying to compensate themselves by developing their trading activities. The establishment of inland branches by the exporting firms have also made considerable inroads into the banking activities of the indigenous bankers. The antiquated methods of the indigenous bankers and also their speculative practices are responsible for this unfortunate decline in the volume of their banking business.

Defects of the Indigenous Banking System :—

It has been pointed out that the present system of indigenous banking hardly constitutes "banking" as it is understood in the modern banking world because the indigenous bankers do not deal with other people's money as the modern banker does, but lend out their own money. Thus, indigenous banking may be more appropriately described as "money-lending" rather than "banking". Besides, the indigenous bankers do not undertake any appreciable deposit or discount business. Another set of defects of this system arises from misery that it inflicts upon the borrowers in the form of usurious rates of interest and a dishonest method of maintaining accounts. As a natural result of the absence of deposit business as an integral part of the indigenous banking system, the savings of these bankers lie hidden into their hoards and are thus not available for the purpose of developing the natural resources of the country. The most important defect of the indigenous banking system is the absence of internal bills of exchange for the financing of inland trade of the country. The indigenous bankers finance the inland trade mostly on cash basis and may,

therefore, be regarded as a great impediment to the development of a bill market in India. The adoption of a uniform practice or the formulation of a definite policy in this regard is rendered particularly difficult not only by the absence of a link between the indigenous bankers and the organised banking system but also by a lack of organisation amongst the indigenous bankers themselves, who are for all practical purposes individual and isolated units of the banking system. The absence of this organisation amongst the indigenous bankers may be traced to their mutual jealousies and also to the great amount of secrecy which they attach to their business. The indigenous banking system is confined only to certain families of the country and the barrier of monopoly is so great that progressive and ambitious element is practically prohibited from entering the field.

Remedies :—

The indigenous banker should be linked with the Reserve Bank of India in an appropriate manner. Indigenous bankers satisfying certain conditions should be treated as member banks and included in the second schedule of the Reserve Bank and should get the same facilities of re-discounting and advances as joint-stock banks, subject to certain obligations, such as submission of their accounts for periodical inspection, maintenance of a minimum balance with the Reserve Bank, etc. It has also been suggested that the indigenous bankers should be allowed to act as the Reserve Bank's agent at least in those places where no other banking organisation exists, and should be subjected to restrictions which will eliminate the risks arising from their speculative and other activities. The entire problem of linking the indigenous bankers with the Reserve

Bank is discussed in details below. As suggested by the Indian Merchants' Chamber, Bombay, to the Central Banking Enquiry Committee, the Reserve Bank, the Imperial Bank and other joint-stock banks should use those indigenous bankers, who are members of the Reserve Bank, as agents for the collection of bills and cheques and that the Reserve Bank and the Imperial Bank should give them the same remittance facilities as are given to joint-stock banks. The scheme of remittances announced by the Reserve Bank of India on 1st October 1940 has achieved this aim to a great extent.

The problem of linking the Indigenous Banker with the Reserve Bank of India :—

The Central Banking Enquiry Committee of 1929 examined the problem of bringing the indigenous bankers into a closer contact with a view to reforming the structure of Indian banking in general and improving the mechanism of the finance of internal trade of India in particular. The Committee made many valuable recommendations upon the question and observed that the entire problem should be examined in greater details by the Reserve Bank of India which was then about to be established. The Reserve Bank in 1937 published a preliminary scheme for solving this problem. According to the scheme the Reserve Bank expressed the view that it was impossible for the Reserve Bank to deal with the indigenous bankers directly without the latter's fulfilling certain specified obligations, *e.g.* publication of a balance sheet, maintenance of statutory minimum balances with the Reserve Bank etc. These conditions have not yet found favour with the indigenous bankers with the result that a very important part of the machinery of

the financing of internal trade of India continues to remain in an unorganised state with no tangible connection with the organised money markets of the country.

3. Banks:—

As a general practice the banks do not advance loans directly to cultivators but indirectly through the merchants or commission agents against mortgage of stocks which are kept under lock and key subject to periodical inspection by the bank's officials. The lock bears the name of the bank whilst sometimes a name-plate bearing the bank's name is put up on the walls of the godowns where the pledged stock is stored with the approval of the bank. The borrowers generally hypothecate the stocks of the lending banks which advance about 75% of the market value of the stocks. If the market price declines, the borrower has to make good the difference. The borrower is also entitled to withdraw his stocks against an equivalent deposit of funds with the bank. The rate of interest charged by the bank is generally about 6%. In addition to advances against pledged stock the banks assist the financing of internal trade by purchasing and discounting hundis or demand drafts, and providing facilities for the remittance of funds from one centre to another by telegraphic transfers. Banks in general do not advance loans against the mudatti hundis or the usance bills of exchange. The banks grant advance only to large firms of traders, after making full enquiries about their financial status, the value of landed property owned by them and the turnover of their business. It will thus be seen, that the joint-stock banks are taking an increasing part in the finance of internal trade of India. Inspite of this,

however, the indigenous banker has retained his importance and the following observations made by the Agricultural Marketing Adviser to the Government of India should deserve a careful attention in this regard. "Although the importance of the shroff may have declined to some extent with the extension of the modern banking system, he still plays a greater part in financing the internal trade of the country than the joint-stock banks. The present position of the shroff is in part due to the fact that modern banking facilities are not available at all important trade centres. For example, out of 2,572 towns in India with a population of 5,000 and over, in less than 830 are there branches of a bank. By far the more potent reason, however, is the intimate knowledge possessed by the shroff of the family history of his clients and their details regarding their business and financial position afforded by daily social contact. This enables him to extend credit facilities much more easily on personal security than is possible for any modern bank. Further, the shroff's services are available at all times and clients can have free access without the formalities and delay such as occurs at the counters of practically all the joint stock banks."*

4. Exporters :—

Another important source of internal trade finance consists of European firms operating in India, and carrying on the export trade of Indian agricultural produce. They provide themselves with funds in India by selling sterling bills of exchange or telegraphic transfers to foreign exchange banks in India. These firms purchase Indian agricultural produce and assist in moving it to the ports out of the funds received

* See the Report on the Marketing of Wheat in India—page 259.

from the sale of certain important commodities imported into India by these firms e.g. piece-goods and other manufactures. They finance the upcountry buying agencies normally by hundies or drafts drawn upon their offices in port towns or sometimes they also remit funds by telegraphic transfer through the Imperial Bank or other exchange banks.

Lack of a Bill Market:—

A notable feature of the finance of the internal trade of India is the scarcity of commercial Bills of Exchange resulting in the absence of a fully developed Bill Market in India. In examining this problem the questions that we must ask are:—Why should Bills of Exchange arise? Are there any alternative methods? What are the conditions which induce the banks to invest their funds in bills? Are there any alternative channels for investment? What are the factors which held back the progress of a bill market in India? What remedies must be adopted to overcome the difficulties and to develop a bill market in India? What creates a specialised bill market outside the bank? It is in the light of these questions that we must address ourselves to the analysis of this important problem.

It is well-known that a bill of exchange is a document which embodies a promise by one person to pay to another person or his order a sum of money at a certain future date specified in the bill. When a trader sells his goods to another person either in his own country or in a foreign country, who is not in a position to pay for the goods immediately, it is the practice amongst businessmen, for the seller to draw a bill of exchange on the buyer, who accepts the same by putting his signature on it. Thus the bill of exchange

gives the buyer the possession of good without compelling him to pay for the goods immediately. If, however, the seller is not in a position to wait until the period of credit specified in the bill expires, he takes the bill of exchange to a bank which is generally prepared to discount the same for him at fixed rates. The banks intervene to remove the inconvenience that may be caused to the seller by waiting for the payment of the goods sold. The banks may also retain the bills in their own portfolio till maturity, if they are in a position to do so, or may, in their turn, rediscount them with another bank. The role of a rediscounting bank is generally assumed in most countries by the central banking institution.

Amongst the various causes obstructing the development of a bill market in India are:—Considerable investment by books in Government Securities, and the fear of the banks that any resort to rediscounting may be misconstrued as a sign of financial weakness. Banks are reluctant to discount bills of exchange because they have great difficulties in ascertaining the credit of the signatories to a bill of exchange. If a bill market develops in India, the British exchange banks operating in India will be deprived of a very valuable source of income almost exclusively enjoyed by them at present. Government's solicitude to preserve this source of income for the banks is in no little measure responsible for the lack of a bill market in India.

BONA FIDE AND NON-BONA FIDE COMMERCIAL BILLS

In studying the origin of bills of exchange, a clear distinction must be made between bona fide and non-

bona fide commercial bills of exchange. The typical example of the creation of a bona fide commercial bill is when the manufacturer sells his good to the whole-sale dealer on credit lasting for a certain period on the condition that the latter will accept a draft drawn on him for the value of the goods. Such bills are usually accompanied by documents of title such as bills of lading, where either the buyer or the seller is in a foreign country (or in a port town to which inland communication is not possible or profitable) or a railway Receipt, where both the buyer and the seller are situated in the same country. These bills may be said to be genuine trade or commercial bills arising out of a bona fide trade or dommercial transaction. A Financial Bill, on the other hand, is an accomodation bill which makes credit available to the signatories purely on the strength of their financial standing. There is no commercial transaction behind such a bill and the credit so secured may be used for any purpose.

It is therefore not always true that the birth of commercial bills of exchange lies in a commercial transaction. As in the case of India, bills are drawn by one person upon another who accepts them with a view to enabling the drawer to meet his financial needs. Thus one businessman, who is in need of money draws a bill of exchange for acceptance by another businessman of high reputation, who accepts it partly out of business courtesy, but mainly out of a hope of being reciprocated in a similar manner, when he himself might need such financial help at some future date. These bills are called "finance bills" and are very often difficult to be distinguished from ordinary commercial bills of exchange.

Cash Credit :—

Let us now try to examine the alternatives to bills of exchange, and see how far they are more profitable than the latter, from the standpoint of both the lender and the borrower and to what extent they are desirable from the wider standpoint of the development of a bill market in India. The alternative method is the system of cash credits and overdrafts which predominates in the internal trade finance of India. The convenience to the borrower of overdrafts and their apparent superiority over the bills of exchange lie in the fact that the borrower is charged interest only on that portion of the overdraft which he uses, while in the case of bill of exchange, he has to pay interest on the entire sum. The borrower can repay the sum of the overdraft at any time whenever he sells off the goods, while in the case of a bill of exchange, he is called upon to pay the amount at the end of a specified period, even though the goods may still be lying on his hands unsold. From the standpoint of the banker, a cash credit is also in some respects more convenient than a bill of exchange. The banker can withdraw the credit extended to his client at any time that he considers it necessary. It is all these considerations which operate in the direction of a preference by the banks and the public for cash credits and overdrafts over bills of exchange. But from the wider standpoint of the development of a bill market in India, this tendency which prevents bills of exchange from coming into existence must be strongly deprecated. Mr. Manu Subedar expressed the view that the foreign banks operating in this country were responsible for this undesirable tendency as they consistently encouraged the idea of cash credits,

and discouraged the idea of bills*. It was urged by many witnesses before the Central Banking Enquiry Committee that it was the right of the borrower to get credit in whatever form he desired and that therefore, both cash credits and bills of exchange should be developed side by side. The banks should take the initiative in developing these bills which are self-liquidating assets and, therefore, as advantageous to them and also to borrowers who have a sense of security that no demand for payment will be made on them during the currency of the bills.

Development of Acceptance Business :—

In order to improve the machinery of internal trade finance in India, it has been suggested that every effort should be made to encourage the formation of Discount Houses and Acceptance Houses along the lines of the British model. The banker's acceptance is the bill of exchange accepted by a bank or a firm engaged in the business of granting acceptance credit; the purchaser of goods on whom the seller draws a bill of exchange, arranges beforehand with his own bank to have the bill accepted by it. The object is to enable the drawer of the bills to discount it readily with his own bank which will have no hesitation in discounting it, because it bears the signature of another bank. The adoption of the system of acceptance credit in India will entail to sacrifices on the part of either the banks or the businessmen, because it makes certain valuable advantages available to both of them. The drawer gets immediate and cheap money for his bill as it is a better security owing to a bank's acceptance and other banks discount it more willingly and at a lower rate than a bill of exchange. From the standpoint of the

* See Mr. Manu Subedar's Minority Report—para 396 page 392.

banks themselves, acceptance credit broadens the lending capacity of the accepting bank which lends *credit* and not money as in the case of other ordinary lending operations. Besides, acceptance paper is more self-liquidating than other short-term paper like Treasury Bills. From the wider standpoint of the money market as a whole, acceptance credit, owing to its easy negotiability can link the various parts of the money market in the country and impart that much-needed element of cohesion and uniformity to it. This has particular significance in the case of India where the various parts of the money market are so widely separated from one another. Taking all these considerations into account, banks in India should change their present methods of granting credit and develop the acceptance credit system as the safest and most desirable form of lending credit. The bank should, of course charge a small commission and take collateral security for accepting the bills in the same way as they do for granting cash credits and over-drafts. It is true that this system will yield them a lower rate of interest than over-drafts and cash credits; but it should be remembered that the profits will not be reduced as the acceptance system will broaden their credit-basis.

It must be admitted that acceptance credit is undoubtedly a higher stage than the discounting of bills in the development of a money market. In a bill of a exchange the sell grants credit to the buyer and discounts it with his bank at his own risk and on his own credit. Thus, it is the seller of goods that really grants credit while the discounting banks grant only cash. with the result that credit which should really be relegated to the operations of the banking system is thus

excluded from its legitimate sphere of existence. Acceptance credit, as practised in some of the advanced money markets of the world, is based on the guarantee of a bank, granted to a buyer, under which the bank accepts a draft drawn on it by the buyer. The result is that the seller of goods is not in any way connected with the business of granting credit, which is thus confined within the limits of the organisation of the banking system. Such acceptances are sold and bought in the Western money markets generally below the bank rate.

It should be fully borne in mind that acceptance business can only flourish in a money market with abundant short term funds and with bill brokers and Acceptance Houses in existence. It has already been observed above that at present bill broking and accepting do not form a part of the normal functions of either the organised banking system or the indigenous bankers. Furthermore, the Indian Money Market suffers from an inadequacy of short-term liquid funds and whatever short-term funds the banks have, are mostly invested in treasury bills. The conclusion is obvious that banks in India should change their practice both in regard to the discounting of bills and investment of their short-term funds, and should take a greater interest in developing acceptance credit business and not confine their imitation of Western banking institutions to office management and general routine of business. Such Accepting Banks when they come into existence should be properly supplemented by Accepting Associations of indigenous bankers, particularly in those places where the former find it difficult or unprofitable to open their branches.

Without such co-operation it is impossible to make the advantages of the system available to the agriculturists. The organisation of the indigenous bankers is so widely spread throughout the country that any banking reform to be really successful can never afford to ignore their existence or to exclude them from its orbit. In the beginning, owing to the illiteracy and conservatism of the agriculturist and their unfamiliarity with this system of credit, it may be necessary to develop acceptance credit in India through the co-operative sales societies, which may draw bills for acceptance by banks or Acceptance Associations of indigenous bankers against the security of produce in warehouses. The establishment of such warehouses is very essential not only from the standpoint of giving the bazar bill a better status as observed above, but also from the standpoint of pooling of the country's produce and thereby stimulating the establishment of co-operative sales societies and most important of all, enabling the agriculturists to wait for better prices for their produce. The suggestion has been made that the Reserve Bank should agree to register these Accepting Houses as member banks and also to control and supervise their working and regulate their commission charges. The warehouses should belong to District and Taluka Boards, banks, the provincial governments or the Reserve Bank and should be generally controlled and regulated by the Reserve Bank. The difficulty in the way of such licensed warehouse was stated by Sir Osborne Smith to be that the management would have to be an expert one and that it would be necessary for stocks to be graded properly and those of different parties to be mixed together.

CHAPTER V—(*Continued*)

FINANCE OF TRADE

II. FINANCE OF FOREIGN TRADE

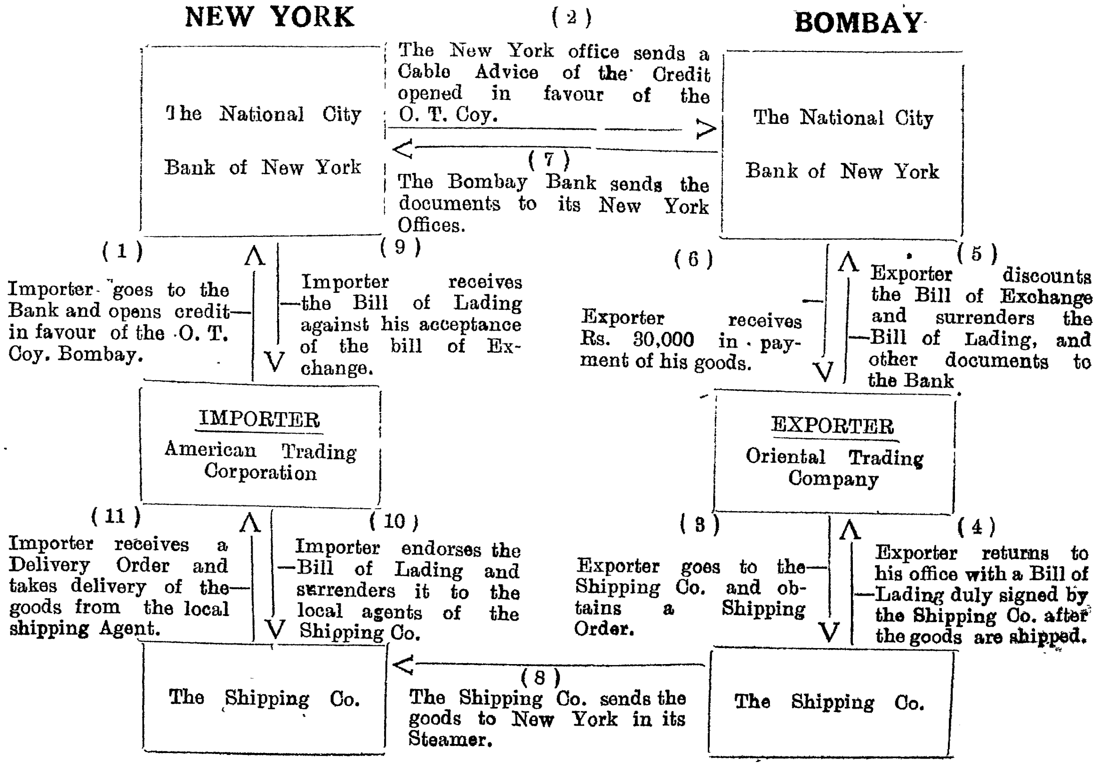
The Mechanism :—

Whenever the Indian exporter sells his goods to his foreign buyer, credits are opened in favour of the exporter on behalf of the foreign buyer through the foreign banks and finance houses. The foreign buyer informs the Indian exporter by cable about the opening of credit and the exporter also receives a written advice along with a copy of the letter of Credit from tbe local branch of the foreign bank, through whom the foreign importer has opened the credit in question. The letter of the Credit contains all the particulars of the shipment, the amount of credit, the period of credit, the name of the Indian exporter and any other instructions regarding the surrender of documents. The exporter must ship his goods before the date of expiry of credit. Immediately after shipment of goods he draws a bills of exchange upon the foreign importer and receives payment for the same by surrendering it in the bank concerned along with other important documents such as the Bill of Lading, Marine Insurance Policy, copy of Letter of Credit, Invoice, Certificate of Origin, etc.

In the case of imports, however, the Indian importer has to approach his bank with a request to

open credit on his behalf in favour of a specified exporter in a foreign country i. e. to instruct its branch in that foreign place to make a payment to the foreign exporter, when he surrenders the documents to it after shipment of goods. The bank, however, will agree to do so provided the exporter has a balance of deposit to his credit. If not, the Indian merchant will be required to pay in a substantial part of the total amount of credit. After this is done, the bank enters into an agreement with the importer to furnish him with a spicified amount of foreign currency at specified rates of exchange at some future date. The bank then sends the necessary cable instructions to its branch in the foreign country, which, in its turn, advises the foreign exporter about the credit opened by the Indian importer in his favour and requests him to surrender the documents to its office, immediately after the shipment of goods. After the documents are received, the bank sends them on to its office in India. The Indian branch of the bank which originally opened the credit on behalf of the Indian importer presents the documents to him for his acceptance, if they are D. A., or for payment, if they are D. P. The Indian importer receives the original bill of lading in return for his accepance or payment of the bill of exchange, endorses it properly and submits it to the shipping company and finally take delivery of the goods.

The chart on page 104 illustrates still further the mechanism of foreign trade finance. Let us suppose that Messrs. The Oriental Trading Co., Bombay, has agreed to ship 5,000 bags of ginger to Messrs. The American Trading Corporation in New York, credit being opened through the National City Bank of


NEW YORK
BOMBAY
The National City Bank of New York
(2)
The New York office sends a Cable Advice of the Credit opened in favour of the O. T. Coy.
(7)
The Bombay Bank sends the documents to its New York Offices.
The National City Bank of New York
(1)
Importer goes to the Bank and opens credit in favour of the O. T. Coy. Bombay.
(9)
Importer receives the Bill of Lading against his acceptance of the bill of Exchange.
(6)
Exporter receives Rs. 30,000 in payment of his goods.
(5)
Exporter discounts the Bill of Exchange and surrenders the Bill of Lading, and other documents to the Bank
IMPORTER
American Trading Corporation
EXPORTER
Oriental Trading Company
(11)
Importer receives a Delivery Order and takes delivery of the goods from the local shipping Agent.
(10)
Importer endorses the Bill of Lading and surrenders it to the local agents of the Shipping Co.
(3)
Exporter goes to the Shipping Co. and obtains a Shipping Order.
(4)
Exporter returns to his office with a Bill of Lading duly signed by the Shipping Co. after the goods are shipped.
The Shipping Co.
(8)
The Shipping Co. sends the goods to New York in its Steamer.
The Shipping Co.

New York. The total value of the goods is Rs. 30,000/- i. e. $ 10,000/-, converted at an exchange rate of Rs. 3.00 for purposes of convenience. The New York offices of the National City Bank of New York will call upon the A. T. Corporation to pay in $ 10,000 or part thereof after the receipt of which it will send a cable advice to its branch in Bombay, which will pay the O. T. Coy. against the latter's surrender of the Bill of Lading and other documents. These documents will be sent by the Bombay branch of the N. C. Bank of N. Y. to its New York offices, which will hand them over to A. T. Corporation against the latter's acceptance or payment as the case may be. The A. T. Corporation will approach New York agents of the shipping company and take delivery of the goods from them. This will be understood by a reference to the chart on page 104.

THE FOREIGN EXCHANGE BANKS IN INDIA

The most noteworthy feature of the finance of India's foreign trade is the exclusively predominant part played by non-Indian exchange banks, particularly the British. These foreign exchange banks operating in India provide more than about 85% of the finance of foreign trade. Indian banks, as a general rule, do not participate in the finance of India's foreign trade for a number of reasons which will be examined in a later section of the present chapter. The foreign exchange banks in India occupy a monopolistic and therefore, a despotic position in the finance of India's foreign trade and have, in recent years, undertaken the finance of internal trade also, and this is regarded as an unfair encroachment upon the legitimate field of operation of the Indian joint-

stock banks. The monopoly of the exchange banks in the foreign trade finance of this country is exercised mostly with the deposits received from Indians. With the development of these foreign exchange banks in India, the machinery of finance has gradually passed from the hands of Indians into the hands of non-Indians. The natural consequence of this monopoly in the hands of non-Indians is that it imposes certain disabilities upon Indian merchants in the matter of the provision of finance for their foreign trade operations. We shall therefore proceed to examine the various difficulties which the Indians have to encounter in this regard.

Disabilities of Indian Foreign Trade Finance:—

1. As these banks are of non-Indian origin, it has been alleged that they pursue a policy of racial discrimination against Indians in the matter of providing finance for the purpose of foreign trade.

2. It has also been stated that these foreign exchange banks give poor reference regarding the credit of the Indian merchants to the foreign merchants and thus impose a considerable hardship upon Indian business in general. As these banks have a monopoly of the finance of India's foreign trade, the Indian importer cannot transact business with foreigners without the banks' opinion regarding his credit. The opinion thus being not quite as favourable as it should be, the foreign exporter does not extend to the Indian importer the same facilities regarding payment etc., which he offers to merchants in other countries.

3. Furthermore, it has been stated that these banks charge an unnecessarily high discount rate to Indian merchants. Generally in England and other important countries the discount rate is lower than the

bank rate, but in India the foreign exchange banks charge the Indian merchants a discount rate which is, curiously enough, higher than the bank rate. It is obvious therefore, that the Indian merchant is called upon to pay an unnecessarily high rate of interest on all bills of exchange arising in the course of foreign trade. The discount rate of the foreign exchange banks would appear particularly exhorbitant when viewed in the light of the cheap deposits which they are able to attract from Indian depositors.

4. Another disability of considerable importance alleged to be imposed upon Indian importer is that while the foreign exporter gets considerable credit, the Indian importer can receive the documents of title from the bank only against the payment of the value of the goods. In the case of the foreign importer, however, the banks release the documents of title to him against his acceptance of the bill of exchange. That means that he can pay the amount of the bill at the end of 6 or 9 months as the case may be, after he has sold off the goods. The Indian importer on the other hand has to pay the amount of the bill even before he receives the possession of goods In most cases the Indian importer is called upon to deposit a certain part of the value of the goods which he wishes to import with the help of credit opened through the foreign exchange bank. The non-Indian firms operating in India are exempted from such compulsory deposits. It has also been complained that, whereas the non-Indian importers in India gets the bills of exchange at their offices from the foreign exchange banks, Indian importers are required to go to the offices of the foreign exchange banks, which involves a considerable waste of time and energy. These charges

were, however, repudiated by the representative of the foreign exchange banks in India before the Indian Central Banking Enquiry Committee of 1929.

5. It has also been alleged that whilst these foreign exchange banks provide trade information to the foreign importers, as a part of their normal banking operation, they do not extend the same service to Indian importers who are consequently handicapped to a great extent.

6. The trade bills in India are mostly drawn in sterling with the result that the Indian merchant is compelled to take his bills for discount to these foreign exchange banks who charge him arbitrary and high rates of discount.

7. The foreign exchange banks are reported to be virtually compelling the Indian importers to insure their goods with the foreign insurance companies which are alleged to charge arbitrarily heavy rates of premium to Indian merchants. The cumulative effect of all these hardships imposed upon Indian importers is that ultimately he has to pay higher cost for his goods than his non-Indian competitors operating in India.

8. The Indian importer is required to pay the bill of exchange only in rupees to the foreign exchange banks at the Bank's selling rate for demand draft. If, however, he could be given the facility of paying it either by a demand draft of another bank or by a cheque on his London agent he would be saved the cost of exchange bank's commission of collecting the bill of exchange. But the foreign exchange banks decline to receive payment in this manner with the result that the final cost of the goods to the Indian importer is considerably high.

9. The foreign exchange banks do not show any

consideration or sympathy or laxity in case the Indian importer is unable to fulfill his exchange contract within the specified period. The foreign exchange banks impose heavy penalties in such cases and the Indian merchant is greatly inconvenienced.

RUPEE BILLS

As already noted above, when the Indian exporter sells his goods to his foreign buyer, credits as opened in India on behalf of the foreign buyer through the foreign banks and finance houses. The exporter surrenders all the documents of title such as bills of lading, invoices, etc. to the bank in India and gets payment for his bills. These bills are sent to the foreign country for being accepted by the bank which has opened credit for the importer and are usually discounted in the open market. As most of our trade is carried on with England, a great bulk of these bills is drawn in sterling and the Indian exporter gets the rupee equivalent of the sterling amount of the bill. This is not the case in other countries where export bills are invariably drawn in local currency. The import trade of India is financed by 60 days' sight draft drawn on the Indian importer and also by London Bank's acceptance of 'house' paper, which is a documentary bill drawn by the London exporting House on the London office of the foreign bank which accepts the bill and returns it to the drawer, who in turn discounts it in the London money market. The accepting bank forwards the relevant documents to its branch or agent in India which presents the same for payment to the Indian importer. The most important point to be noted with regard to these bills is that both the export and import bills are drawn in sterling

and that the import bills are held by the exchange banks, which handle this business entirely, until the date of maturity instead of being circulated in the market. In the case of exports it is an advantage to the Indian exporter to be able to get discount facilities in London which is one of the biggest international money markets in the world. In the case of imports, however, as recommended by the Central Banking Enquiry Committee, it is essential to introduce rupee bills in India's import trade, especially for the development of a bill market in India. The Foreign Exports on the Central Banking Enquiry Committee, however, seemed to be arguing in a vicious circle when they stated that such rupee bills could not be introduced without the existence of a well-developed bill market and consequence assurance of discount facilities. The Majority expressed the opinion that the exchange banks should consider the possibility of changing their practice to the extent of being prepared to accept the bills, instead of purchasing them, in the same way that "House Paper" of a London Export House was accepted by them, and that such bills could then be discounted in the London money market in the usual manner. This would pass on the benefit of cheap money conditions in the London discount market to the Indian importers and would obviate the need for introducing Rupee Bills The Late Sir Basil Blackett, in his written Memorandum to the Central Banking Enquiry Committee, suggested the replacement of cash credit by acceptance credit under which the Indian exporter could arrange with a bank in India for an acceptance credit to be established in his favour. This would enable the Indian exporter to draw on the bank for the amount on the acceptance and would

make it possible for him, during the currency of the acceptance draft, to send the goods forward, drawing an export draft on his customer and offer it for sale to his banker in India, at the maturity of the rupee draft to which the latter had given his acceptance. Sir Basil expected that this system of credit would considerably lighten the hardships which the Indian exporting community had to undergo during the period in which their merchandise awaited shipment in their godowns. Sir Basil's scheme is discussed in details at the end of this chapter.

It must be recognised that so long as foreign banks operating in India exclusively handle the export and import bills and so long as Indian joint stock banks do not take any appreciable interests in the financing of India's foreign trade, no measure or reform in this field for developing a bill market in India can be really successful. The foreign banks have ample funds and, therefore, do not find any necessity of discounting the bills which come into their possession. From a purely business standpoint it might be stated that the foreign banks cannot be expected to forego a part of the interest on the bills by discounting them in the market for no other purpose than the development of a bill market in India, in which they have presumably no interest. It is only Indian banks which can help to develop a market in these bills by participating in the finance of India's foreign trade. Many difficulties are placed in the way of such participation by Indian banks in foreign trade finance. We shall now proceed to examine the various causes which result in Indians' taking a very insignificant part in the finance of India's foreign trade.

SHARE OF INDIANS IN INDIA'S FOREIGN TRADE FINANCE

As already noted above, the share of Indians in India's foreign trade is negligible. According to the figures supplied to the Indian Central Banking Enquiry Committee by the Indian Chamber of Commerce, Calcutta, the share of Indians is less than 15% of the total finance of foreign trade. The various causes which make it difficult for Indian banks to participate in foreign trade finance are as follows:—

1. The very nature of business is such that the slightest miscalculation will involve the banks in heavy losses with disastrous consequences upon their internal banking business. Foreign exchange business is accompanied by enormous risks owing to the constant fluctuations in the foreign exchange rates in the world. Whereas the financial structure of the non-Indian banks is sufficiently large to absorb such periodical shocks arising from miscalculations or fluctuations, the Indian banks would find their very existence threatened by such episodes in the course of the finance of foreign trade.

2. Foreign exchange business is a very complicated business which involves a thorough knowledge of the principles and practice of foreign exchange technique. As a majority of our Indian banks do not possess this expert knowledge, they find it impossible to undertake this business. The risks arising from fluctuations, combined with the risk arising from ignorance, makes foreign exchange business a field where the Indian banks fear to trade.

3. It has also been stated that the severe competition of the well-established non-Indian exchange banks, with large capital and reserves, blocks the way

towards an active participation in India's foreign trade.

4. As a natural consequence of the above competition, the margin of profit in foreign exchange business is considerably small. This small margin of profit does not induce the Indian banks to invest their capital in this bnsiness.

5. A major part of the resources of the Indian banks is employed in internal trade finance which yields them such higher rate of profit.

6. The Indian banks do not have any branches in other important trade centres like London and this precludes them from taking part in arbitrage and direct exchange transactions. The Late Sir Dorabji Pochakhanawalla, before the Central Banking Enquiry Committee, gave the following chief difficulties in the way of an Indian bank's opening a branch in London for foreign exchange business :—

(a) A huge amount of capital in order to command credit in the London discount market.

(b) Heavy Initial losses to open a branch in London and to maintain it on sound lines also make it difficult for Indian banks to open foreign branches. The Late Sir Dorabji estimated that the bank would have to bear an initial loss of Rs. 5,000/- or more per month for a period of at least three years on account of working expenses.

(c) The difficulty experienced in obtaining a trained and reliable staff with some knowledge of international exchange, also presents a serious obstacle in the way of Indian banks' opening branches in foreign centres to finance satisfactorily the foreign trade of India.

(d) The need for maintaining large floating

resources to permit a big turnover is also stated to impose an additional difficulty upon Indian banks in this matter.

(e) The difficulty in London of obtaining local deposits and other banking business from the British public, merchants or manufacturers should also be taken into consideration in this respect.

(f) The fear is also expressed that the political movement in India would affect the banking and trading facilities which an Indian bank would expect in London and other places.

If the machinery of India's foreign trade finance is to be placed on a better footing and the present disabilities of the Indian traders are to be mitigated, every effort should be made to remove the above difficulties of Indian joint-stock banks and every assistance must be extended to them to enable them to take a more active part in the financing of India's foreign trade. In the following section we shall examine the various directions in which reforms can be introduced to improve the present machinery of foreign trade.

REFORM OF INDIAN FOREIGN TRADE FINANCE

1. Restrictions on the foreign exchange banks :—

It has been suggested that in order to remove the greater obstacles in the way of the finance of India's foreign trade by Indians, appropriate restrictions should be placed upon the working of the foreign exchange banks in India. It is true that reform in this matter will have to take place in all directions and a mere restriction on the foreign exchange banks will not lead to a greater participation of India in foreign exchange business. India cannot afford to

remain permanently dependent upon foreign institutions for the carrying on of her foreign trade and must devise as early as possible some means whereby the Indian banking system would place greater facilities at the disposal of Indian merchants engaged in foreign trade.

In considering the problem of imposing restrictions upon foreign exchange banks operating in India, the Majority of the Central Banking Enquiry Committee felt that one must take into consideration the feature relations between Indian and foreign institutions in general. On this question must depend the manner in which the monopoly of the foreign exchange banks is to be broken and a substantial business secured for Indians. The view was expressed that the need for stringent restrictions would be removed by proper goodwill on both sides. Mr. Manu Subedar, however, in his Minority Report to the Committee, proposed a scheme of licensing of the foreign exchange banks and the imposition of certain restrictions such as restriction on receipt of deposits, registration with rupee capital etc. In regard to the nature of these restrictions upon exchange banks he felt that it was a matter of merely securing a sentimental advantage but of warding off a substantial injury.

2. An Indian exchange bank :—

The positive proposal to improve the machinery of Indian foreign trade finance has assumed the form of a suggestion to establish a separate Indian exchange bank. The majority of the Central Banking Enquiry Committee favoured the idea of such a bank; but Mr. Manu Subedar opposed the idea on the ground that there would be very strong opposition and competition from the foreign exchange banks with

resultant heavy losses for both. He felt it doubtful whether Indian taxpayers would be able to bear the loss. Furthermore, it would not minimise the domination of the foreign banks and if the bank went into liquidation, he observed, that there would not only be national humiliation but racial bitterness. Mr. Manu Subedar, therefore, recommended that the foreign exchange business should be conducted not through a separate exchange bank but through a separate foreign exchange department under the control of The Reserve Bank.

3. Introduction of Rupee Bills :—

As already noted, the bills of exchange drawn upon the foreign importer should be drawn in rupees instead of in sterling as at present. This will not only help the development of a bill market in India but also enable the Indian joint stock banks to take a greater share in the financing of our trade.

4. Creation of "Joint" banks :—

A proposal was made before the C. B. E. Committee for the creation of 'joint' banks formed by the mutual arrangement between Indian and foreign countries according to which the rupee capital would be furnished by Indians and the foreign capital by foreigners, the control and establishment being under joint supervision and the profits realised being shared equally between the parties. The Majority of the C.B.E. Committee felt that the creation of such 'joint' banks would result in not only an advantage to the institutions concerned but also for the country as a whole*. They were of the opinion that the idea of joint banks was a very valuable one as it brought

* See the Report of the C. B. E. Committee—page 352-354 paras 490-492.

out the internationalism of financial solidarity and economic development. The Committee felt that the mere idea of foreign trade implied two parties: one, Indian and the other foreign, and it was not to the interests of either that either should have the dominating voice in the financing of bussiness. Financing of trade, they said, like trade itself should be mutual. The argument appears to be a logical sophistry and one should like to see a wider application of this principle in the world before India is called upon to adopt it. Furthermore, the creation of 'joint' banks cannot be successful in this country because the joint control will be exercised in an inevitable atmosphere of mutual distrust and suspicion.

5. Foreign Agents :—

In order to circumvent the difficulties of opening foreign branches, it has been suggested that well established Indian joint stock banks should open foreign connections for the benefit of their customers.

6. Rupee Acceptance Credit:—

The Late Sir Basil Blackett, the then Finance Member of the Government of India, in his written Memorandum to the Indian Central Banking Enquiry Committee, suggested the introduction of rupee acceptance credit in India on the lines of the U.S.A. Germany and London. According to his scheme the exporter arranges with a bank in India for an acceptance credit to be established in his favour. He draws a bill of exchange on the bank for the amount of the acceptance and obtains money to finance his exports by selling it in the open discount market. After he has exported the commodity, he draws an export draft upon his customers and sells it to his banker in liquidation of the obligation, on the

date of maturity of the rupee draft to which the banker has given his acceptance. Thus rupee bills would come into existence as the drawer can dispose of the bill of exchange accepted by the bank in the discount market. Under this scheme the bank permits the exporter to utilise its credit in the market to provide himself with funds whilst the goods are in the course of shipment. This bill of exchange may be compared to the "finance or accommodation bill" which is very common in India. The exporter has to sell to the bank the 'real' bill of exchange coming into existence after the actual shipment of goods to enable the bank to meet the bill of exchange which it had previously accepted to oblige the exporter. The exporter has to sell this bill of exchange before the previous one, with the bank's acceptance, falls due for payment. The net result of the whole transaction is that the banker himself has not to pay anything to finance the exporter, but merely to attach his acceptance to enable the exporter to obtain money from some one else in the market upon his credit. To the exporter this is particularly advantageous in times when his merchandise awaits shipment. Under these circumstances his funds are locked up in the goods under shipment and his business, to the extent, is hampered. As a result of this rupee acceptance credit scheme, he can withdraw his locked up funds and undertake new business before the goods are even shipped. For the person who discounts the first bill of exchange accepted by the bank, this system is also profitable, as with the bank's acceptance, he can combine both income from interest and security. From the wider standpoint of the development of a bill market in India, the introduction of this scheme would

undoubtedly make an encouraging beginning. Whilst retaining the existing sterling bill, it would admirably superimpose the rupee bill on the Indian money market and thus avoid all controversies and bitterness. This proposal which was typical of Sir Basil Blackett's general attitude towards India's economic life, has however, not yet been considered by Government.*

7. The Imperial Bank to finance foreign trade :—

It has also been proposed that the Imperial Bank should be induced to take an active share in the financing of India's foreign trade now that the restrictions on such business imposed upon it previously have been withdrawn after the establishment of the Reserve Bank. It has however, been pointed out as against this proposal that this would divert the Imperial Bank's attention from internal trade finance which is supposed to be of very great importance.

8. It has also been suggested that the Government should create an Export Credit Board, as in England and Germany, to guarantee the bills of exchange of Indian exporters against suitable security. These bills would then be eagerly sought for by the exchange banks, instead of being taken for more collection as at present, and the Indian exporter will not have to wait for funds for a very long time.

* See Sir Basil Blackett's written Memorandum to the Indian C. B. E. Committee, Evidence Vol. II pages 450—454.

CHAPTER VI

CHIEF EXPORTS OF INDIA

COTTON—(RAW)

BEFORE World War II this was the most important commodity exported to foreign countries particularly to Japan an the U.K. The percentage of exports of raw cotton to total exports of merchandise from India is about 15 in normal times, although it has declined in recent years as a result of the war. The quantity of exports of raw cotton from India is about 500 tons or about 30 lac bales of 500 lbs. each. The value of raw cotton exports amounts to about Rs. 25 crores. The principal varieties of cotton exported are Dholleras, Broach, Oomras, Dharwar, and Coomptas, out of which Broach is the most superior type grown in Western India. Recently, however, the 'Jarilla' cotton of ¾" staple from Khandesh is proving to be of an equally fine quality. The Hinganghat cotton from the Central Provinces and the Bengal Cotton from the Gangetic valley are also acquiring good reputation. The principal export is of short staple cotton of 5/8" staple as well as the medium staple cotton varieties such as the Punjab-American and Karunganni. Experiments are being conducted by the Indian Central Cotton Committee to improve the staple, the yield and cleanliness of Indian raw cotton. An attempt is being made to

acclamatise the American variety of long staple cotton but the results have not yet been successful from the commercial standpoint. The following table* gives the quantity and value of the exports of raw cotton from India :—

EXPORTS OF RAW COTTON

Year	Quantity in thousand tons.	Value in crores of Rs.
1938-39	483	23.86
1939-40	526	30.11
1940-41	387	23.56
1941-42	257	15.94
1942-43	54	3.64

It will be seen from the above table that the value of exports of cotton has declined from Rs. 30.11 crores in 1939-40 to Rs. 3.64 crores in 1942-43. i.e. a fall of about Rs. 27 crores. This heavy decline of exports of raw cotton can be explained by the higher mill consumption within the country and also due to cessation of trade with Far Eastern Countries. After the outbreak of the war the mills in India have begun to consume raw cotton on an enormous scale and have thus given considerable relief to the commodity whose exports to foreign countries were made very difficult.

* From the *Review of the Trade of India* 1942-43–page 161.

Direction :—

The following table* indicates the direction of Indian exports of raw cotton.

(In thousands of bales of 400 Lbs. each)

Countries	1938-39	1939-40	1940-41	1941-42	1942-43
U. K.	411	473	291	547	229
Other parts of British Empire	23	26	43	76	56
Total ...	434	499	334	623	285
Japan	1211	1056	705	385	...
Italy	92	52	5	...	...
France ...	169	299	126	...	...
China (Exclusive of Hongkong Etc.)	193	681	754	141	...
Belgium ...	142	68	5	...	...
Spain	2	15	...	...	...
Germany ...	192	52	...	...	...
Austria ...	...	...	...	...	...
Other Countries	268	296	239	289	16

From the above table it will be seen that Japan before the war with that country was our biggest customer next to which came the U. K. The important development leading to the rise of Japan as the biggest buyer of Indian raw cotton was the Indo-Japanese Trade Agreement under which India agreed to ship one million bales to Japan and to import 283 million yards of Japanese piece-goods. As a result of the Ottawa Pact with England, however, India had to divert her raw cotton to the U. K. Recently owing to the outbreak of war, exports to Japan have completely ceased. An important development in the exports of cotton is the greater demand for Indian cotton from China. From 193 thousand bales in 1938-39 China began to absorb more and more

*Trade Review for 1942-43 page 169.

Indian raw cotton until the exports of raw cotton to China in 1940-41 amounted to 754 thousand bales. The causes for the increase in Chinese demand may be sought in the reduced production of cotton in China due to the Sino-Japanese war and difficulties of transporting cotton from interior parts to mill centres. The heavy slump in export trade during the last two years may be explained by huge reduction in exports to the U. K. due to the shortage of freight, whilst the decline and ultimate cessation of the Far Eastern trade with Japan may be explained by a heavy accumulation of cotton goods in Japan owing to the loss of export trade, the restrictions imposed in Japan upon the use of cotton for articles meant for home consumption and the strenuous efforts made by the Japanese Government to increase cotton production in the Yen block area of China. In 1942-43 export of raw cotton to China completely ceased.

The East India Cotton Association is a very important body in India connected very closely with the raw cotton trade of the country. Similarly the Indian Central Cotton Committee has been entrusted with the useful task of carrying on cotton research with a view to improving the quality of raw cotton.

Future :—

If Japan persists in her present policy of becoming independent of Indian and American cotton supplies, it is possible that India in the post war period may lose a very important customer. After the cessation of hostilities, Indian Cotton will have to face the competition of superior American cotton and there is a possibility that the U. K. might reduce her offtake of Indian cotton in favour of American cotton

owing to the inferior quality of the former. That will mean a great setback to the exports of Indian raw cotton which may, therefore, be absorbed by cotton mills in India. The present tendency for the increasing home consumption should be encouraged as much as possible during the post-war period so that the loss of export trade might be properly compensated for and the vast population of this country may be provided with cheap and adequate cloth. If this happens India will be in a position to export her surplus piece-goods to the surrounding countries like South Africa, the Dutch East Indies, etc.

2. COTTON MANUFACTURES

In addition to exporting raw cotton, India also exports cotton manufactures to countries like Iran, Iraq, Str. Settlements, Aden & Dependencies, South Africa and Portuguese East Africa. The important varieties of cotton manufactures are gray, unbleached piecegoods, coloured, printed or dyed cloth, hosiery, chadars and dhoties, various types of shirtings, drills and geans, etc. The value of cotton manufactures is about Rs. 15 to 20 crores. The trade is carried on mostly from Bombay port which accounts for more than 75% of the total Indian exports of cotton manufactures. As a result of the present war the exports have received a great stimulus because India's customers have become exclusively dependent upon Indian cotton manufactures. Even after the end of the present war, these countries will continue to be so dependent upon India because it will be some years until their erstwhile suppliers will resume their exports of cotton manufactures to them. Thus Indian cotton manufactures have a bright future before them

and every effort should be made to enable India to fulfil this likely post-war demand.

In 1939, the Government of India imposed a 5% duty upon the long staple cotton coming into India particularly from Egyptian Sudan. The effect of this has been that Indian cotton mills have been greatly inconvenienced and thus their production of superior cloth has been discouraged. Consequently, India cannot produce superior cloth and is, therefore, unable to offer competition to other countries like England in foreign markets. The reduction of India's demand for this superior type of cotton has led to a natural diversion of supply of this cotton to the cotton industry of other countries particularly England.

3. JUTE (Raw)

This is one of the principal commodities exported from India to foreign countries forming, along with manufactures, about 30% of total exports. Jute is grown almost exclusively in the Bengal province and there are many non-Indian firms, particularly Scottish, engaged in this trade in which India has a practical monopoly. In recent years experiments have been conducted by some countries to find substitutes for Indian jute. Acclamatisation of jute exotics has been successfully accomplished at Dundee in Scotland and the Dundee jute has been offering some competition to Indian jute. The table* on the next page gives the quantity and value of exports of raw jute from India. From the table it will be noticed that the value of exports was reduced by more than half in 1942-1943 as compared with the prewar year. This is of course explained by difficulties of transport as

* From the *Trade Review* 1942-43—page 166.

EXPORTS OF RAW JUTE

Year.	Quantity in thousand tons	Value in crores of Rupees.
1938-39	690	13.400
1939-40	570	19.830
1940-41	243	7.850
1941-42	315	10.417
1942-43	243	9,016

well as the higher consumption by jute mills in India. During the last year the position was improved slightly owing to resumption of exports to the U. K. on a small scale. The following table § gives the production, the mill consumption and the exports of raw jute from India:—

PRODUCTION, MILL CONSUMPTION AND EXPORTS OF RAW JUTE (in lakhs of bales).

Season : July to June	Production	Mill Consumption ‡	Exports
1931-32	55	43	31
1932-33	71	44	35
1933-34	80	43	43
1934-35	85	46	44
1935-36	72	50	41
1936-37	96	61	49
1937-38	87	67	37
1938-39	68	62	39
1939-40	97	72	30
1940-41	132	55	13
1941-42	55	68	15
1942-43	91 †	67	13

§ From the *Trade Review* for 1942-43—page 177

‡ Represents figures for Association Mills only.

† Including Nepal

It will thus be seen that in recent years the production of jute has been increased probably to satisfy war requirements. The permanent feature of the jute trade of India is that the exports are invariably less than the mill-consumption within the country and the gap has been considerably widened after the outbreak of the war as is evident from the above table. This may be ascribed to the difficulties of export and a great increase in the jute manufacturers within the country.

Direction :—

The following table * gives the exports of raw jute to the various countries of the world :—

(In thousands of bales)

	1938-39	1939-40	1940-41	1941-42	1942-43
U. K.	1012	1094	516	818	497
Other parts of the British Empire	19	32	29	39	34
Total of the British Empire	1031	1126	545	857	531
U. S. A.	174	284	256	557	694
France	426	478	117	...	...
Italy	258	153	29	...	...
Brazil	138	193	65	85	49
Japan	83	76	53	15	...
Belgium	285	185	5	...	...
Spain	63	90	111	28	...
Germany	739	197	...	...	...

From the above table it will be seen that the U. S. A. is our greatest buyer of jute next to which comes the U. K. U. K.'s share has declined during the last year whilst exports to France have completely ceased.

* From the *Trade Review* for 1942-43—page 171.

Before the outbreak of the present war, Germany showed great promise particularly in 1938-39 when it absorbed 7,39,000 bales of Indian raw jute. But after the outbreak of the war and the declaration of Germany as an enemy country, exports of raw jute to Germany also have completely ceased.

Problems:—

Jute is the cheapest fibre available for bagging agricultural produce and the demand for raw jute, therefore, depends upon the world production of agricultural produce. In recent years, however, the mechanical bulk-handling of agricultural produce and the substitution of paper bags for packing cement etc., have reduced the world demand for Indian raw jute. Until recently, therefore, the prices of jute had declined considerably and there was an acute problem of overproduction. The production of jute, therefore, was curtailed to raise the prices and this tendency has received considerable stimulus by the war time necessity of diverting a part of jute producing land to the production of foodstuffs. The war demand for jute bags has resulted in considerably heavy prices for raw jute *. It has however, been felt that the exports of raw jute should be replaced, as early as possible, by exports of jute manufactures from India. The consumption of raw jute by jute mills within the country is going on at a very slow pace and every effort should be made to speed up this consumption.

The export duty on jute is supposed to be particularly embarassing to the export trade and the fear is generally expressed that this may lead to the expulsion of Indian raw jute from the world market. The export

* From the *Trade Review* for 1940-41—page 225.

duty on jute has been a subject of heated controversy for many years.

The Indian Central Jute Committee has been constituted by the Government of India with 24 members. Representation has been found on the committee for trade and agricultural interests and for provincial governments. The functions of the committee include agricultural, technological and medical research, improvement of crop forecasting, distribution of improved seeds, enquiries and recommendations relating to banking and transport facilities and improvement of marketing in the interests of the jute industry. The committee also advises the Provincial Governments concerned on any points within its prescribed functions which may be referred to it. The Government of India finances the committee for the time being by grants from the Central Revenue.

The Indian Jute Mills Association is a combination of all the non-Indian jute mills operating in Bengal. This was established in 1886 and is one of the most important bodies affiliated to the Bengal Chamber of Commerce, Calcutta. The principal object of the Association is to promote the common interests of the jute manufacturers and the jute industry in general.

Future:—

After the termination of the present war, the jute trade of India will have to face a difficult situation. The tendency to find hemp, flax, and other substitutes for jute will receive a greater momentum and the exports of Indian raw jute are likely to receive a setback. Every effort should, therefore, be made to see that India becomes dependent more on the exports of jute

manufactures rather than of raw jute in the post-war period.

"The overrunning of countries like Malaya, the Netherland East Indies and Borneo meant the loss of good markets for heavy goods. The Pacific Supply route became dangerous. With Bay of Bengal rendered unfit for shipping, the port of Calcutta had to be closed for shipping for a long time. Exports of jute and jute goods were therefore made through the western ports which with the shortage of internal transport could only be on a small scale. So long as this state of affairs prevails, it will not be possible to look forward to the future with great confidence."*

4. JUTE MANUFACTURES

This is the most important single commodity of export, forming about 25% of total exports of India. The chief varieties in which jute manufactures are exported are gunny bags, hessian sacking, gunny cloth, rope and twine and twist and yarn. The chief centre of production and export is Calcutta. The table† on the next page gives the quantity and value of exports of jute manufactures from India.

From the table we see that the export trade in jute manufactures has considerably improved after the war. In the beginning of the war, it was feared that the shortage, of tonnage, the Japanese successes and the disturbances to shipping in the Bay of Bengal would diminish the exports of jute manufactures from India; but the rise in prices owing to war demand combined with the diversion of export traffic from Calcutta to Bombay has allayed considerably the initial fears.

*From *Commerce*. December 19th, 1942—page 754.

† From the *Trade Review* for 1942–43 page 161.

EXPORTS OF JUTE MANUFACTURES

	Quantity in thousands			Value in thousands of Rs.		
	1938-39	1939-40	1942-43	1938-39	1939-40	1942-43
Gunny bags (No)						
Hessian	1,43,490	7,45,638	112,622	2.00	8.66	3.01
Sacking	4,54,946	4,65,062	293,198	10.45	16.79	14-14
Gunny Cloth Yards.						
Hessian	15,07,208	15,15,252	894.402	12.82	21.55	18-22
Saking	42,520	45,874	13.784	0 51	0.86	0.32
Rope & Twine	176	202	71	0.22	0.34	0.21

Direction :—

The most important buyers are the U. K., Australia, U. S. A., the Argentine Republic for hessian bags; U. K; Australia, Japan, French Indo-China, Java, U. S. A., Chile, Peru and Cuba for sacking bags; U. K., Canada, Australia, U. S. A., the Argentine Republic, Urugway for hessian cloth; and the U. K., Australia, the U. S. A., Argentine Republic for sacking cloth. The U. K. is our best customer for hessian bags, although during the last year, her offtake has declined considerably. Australia absorbs our sacking bags in huge quantities while the U. S. A. and the Argentine Republic, being agricultural, absorb enormous quantities of Indian hessian cloth, which accounts for the major part of jute manufactures. As a result of the situation brought about by the war there was no export to China and Japan during the year 1942-43.

Future :—

It is probable that the offtake of Indian jute manufactures by foreign countries will suffer considerable decline in the postwar period owing to the substitutes for packing likely to be used by our present customers to a greater extent than at present. Indian consumption of jute manufactures is very low and if the industry is to survive on a permanent basis, the internal consumption should be greatly enhanced particularly by extending the use of gunny packing for Indian agricultural produce on a very large scale.

5. TEA

India is the greatest tea exporting country in the world while in point of production it stands second only to China. This commodity forms about 15 to 20% of the total exports of Indian merchandise, the value being roughly about Rs. 25 crores in normal times. The exports take place under a quota system laid down by the International Tea Committee. The chief areas of production in India are Assam, which produces more than half of the total Indian production of tea, Southern India, some parts of Bengal, the U. P., and the Punjab in Northern India. Tea is sold by auction in Calcutta and in London. The chief varieties in which Indian tea is exported are black, green, dust, pekoes, souchang and farrings. The important stages of manufacture of tea are plucking, withering, fermenting, grading and packing. The chief ports of export are Calcutta 60% Chittagong 24%, and Madras 16%. The following table* gives the quantity and value of the exports of tea from India :—

* From the *Trade Review* for 1942-43—Page 161.

EXPORTS OF TEA

	Quantity in thousand lbs.	Value in crores of Rupees.
1938-39	3,48,050	23 29
1939-40	3,59,394	26.31
1940-41	3,49.490	27.79
1941-42	3,81,951	39.57
1942-43	3,22,917	31.64

From the above table we see that the exports of tea have actually declined in 1942 43 than the preceding year. The war has lifted up the tea industry from the slump in which it had fallen in the pre-war period as a result of over-production and severe competition. The exports of Indian tea take place under the Restriction Scheme introduced in 1933 according to which both production and exports in the principal tea producing countries of the world are regulated from time to time with due regard to the export demand and the needs of internal consumption. This scheme is administered by the International Tea Restriction Committee. This scheme avoids any serious glut or surplus with the result that the prices of tea are not subject to violent fluctuations. Commenting upon the increase of tea exports from India, the Review of Trade for 1940-41 observed: "Tea has proved to be a war time necessity. It is perhaps an inevitable characteristic of the unnatural mode of living and working in war time, when the population is subjected to an enormous amount of strain and fatigue, that a nation's requirements of a cheap beverege like tea should increase in an even larger measure than those for some of the essential articles of food.

In the United Kingdom the consumption of tea was reported to have steadily increased since the outbreak of war, particularly after the prolongation of hours of work and the intensification of enemy air raids. The tremendous expansion of armed forces for whom tea is an obvious necessity further increased the demand for tea" *.

As a result of all the above factors, there was a huge demand for Indian tea particularly from the U. K. The loss of the Continental markets was considerably counter-balanced by very huge demand from the U. S. A. and Australia for Indian tea. The International Tea Committee saw that it was impossible to satisfy this demand without increasing India's share of the export quota which was therefore raised to 479 million lbs. for 1942-43. It has been said that the difficulties of the Indian tea industry in the present war have arisen, not out of a lack of demand, but out of an enormous increase in the demand for tea particularly from the U. K. which has requisitioned all stocks of tea held in India and also purchased enormous quantities on a long-term contract basis through the British Ministry of Food. According to the Purchase Scheme introduced by the British Ministry of Food, the Government of India have prohibited private exports of tea from 30th Semptember 1942, except under specific conditions. The object of this scheme is to apportion the available supplies of Indian tea among the Allied countries. According to the Calcutta Tea Brokers' Association, the Government were forced to adopt this measure by the abnormal rise of tea prices due to rumours, uncertainty, speculation,

* *Trade Review* 1940-41—page 48.

hoarding, and above all, the drawing (almost to vanishing point) of internal supplies by the continued export of tea intended and earmarked for internal consumption in India. † As a result of all these factors, the exports of tea from India increased enormously as is evident from the above table.

Direction :—

The following table ‡ indicates the various countries which import our tea :—

EXPORTS OF INDIAN TEA

(in million lbs.)

Countries	1938-39	1939-40	1940-41	1942-43
U. K.	304	290	315	252
Burma	2	3	3	...
Canada	15	27	15	9
Australia	1	4	1	13
Ceylon	4	7	2	1
Other Br. Possessions	5	6	2	3
Total Br. Empire	331	337	338	278
Iraq.	0.2	0.2	0.1	8.1
Egypt	0.4	0.5	0.2	1.9
U.S.A.	8.0	13.0	9.0	18.6
Turkey Asiatic	0.2	0.2	0.2	0.2
Iran	5.0	6.0	1.0	5.6
Other countries	3.1	3.0	1.0	0.8
Total foreign countries	16.9	22.9	11.5	8.3
Grand Total	347,9	359.9	349.5	43,5

From the above table it is evident that the U. K. is our largest buyer purchasing annually about 252 million lbs. of Indian tea. The next largest being the U. S. A. purchasing only 19 million lbs. The Near East Countries like Egypt and Turkey and the N. W. F. countries

† *Commerce*—Annual Review Number 1942.

‡ From the *Trade Review* for 1942-43—page 173.

like Iran and Iraq are also fairly important purchasers of Indian Tea.

Home Market :—

The Indian tea industry has to rely mostly upon foreign markets because the home market is not yet developed to any appreciable extent. More than ¾ of the total production is exported to foreign countries as will be evident from the following table. :—*

(in million lbs.)

	PRODUCTION	EXPORTS
1937-38	430 25	334.23
1938-39	451.86	348.05
1939-40	452.60	359.39
1940-41	463.50	349.49
1941-42	501.09	381.95
1942-43	563.87	322 92

Although there is such a huge production of tea within the country, the internal consumption of tea is very meagre. The total consumption in India is about 70 million lbs. as compared with 500 million lbs in the U. K. while the consumption per head is only about 0.20 lbs. and 10 lbs. respectively. This may be ascribed to a general prejudice of Indians against the habit of tea drinking as harmful to the human body. In recent years, however, this prejudice is overcome to a great extent and special efforts are being made to develop the home market and to increase the internal tea consumption by vigorous propaganda.

Foreign Competition :—

Indian tea has to face the competition of Chinese, Ceylonese, and Japanese tea in the world markets. Ceylonese tea is driving out Indian tea particularly from Australia, New Zealand, whilst the Chinese tea has considerably entrenched upon Indian supplies of

* *Trade of Review* 1942-43—Page 88.

tea to the U. K. and the U. S. A. The following table †
gives the percentages of India's shares of the total imports of tea into the important countries of the world in 1939, before the present war :—

INDIA'S SHARE

U. K.	France	Canada	U. S. A.	Australia	New Zealand
56.6	9.8*	63.7	16.2	3.5*	4.6

But India has not to fear much from the competition of Chinese tea because the quality of Indian tea is superior whilst the production of tea in India is carried on on a large scale with mechanical aids to cultivation, European capital and management, whereas Chinese tea is produced on a small-scale basis with primitive methods of cultivation. The enormous rise of tea prices in recent years has induced Java to produce and export tea to world markets in competition with Indian tea. This competition should not give rise to any anxiety, as the Javanese production is dependent upon the level of tea prices whilst there are natural territorial limitations upon the production of tea in the Dutch East Indies Islands.

Future :—

The exports of tea are likely to continue their present prosperous trend even in the post-wat period. The war in China and the destruction of the Dutch East Indies islands, have considerably affected their production of tea and it will be some years when these countries resume their former position in world market. After the present war comes to an end,

† *Review of Trade* 1942-43—Page 181.

* *Figures of* 1938.

therefore, India will get a good opportunity of filling up the gap created by the lack of supplies from these countries particularly to the U. S. A. Another possibility in the post-war period is the development of a new market, viz. Russia. A point of vital importance in this connection is the internal economics of the production of tea in India where the law of diminishing returns is already in operation. This is evident from the propoitionately low yield in relation to the acreage under cultivation.

6. OILSEEDS

India occupies a very important position in the world, both as a producer and exporter of oilseeds. The value of the exports is normally between ten and twenty crores of rupees, although the figure is declining in recent years owing to foreign competition. The chief varieties of Indian oilseeds are linseed, groundnut, rape seed, sesamum seed, castor seed, copra seed, cotton seed, mustard seed, mowra seed and poppy seed. The chief areas of production in India are the Central Provinces for linseed, Madras, Bombay and Hyderabad for groundnuts, U. P. and the Punjab for the rape seed. Linseed requires a deep and moist soil and is, therefore, grown chiefly in the Central Provinces, Bihar, Orissa and the U. P. Sesamum is chiefly grown in the Peninsular India. The chief ports of export are Bombay and Madras. The acreage devoted to the cultivation of oilseeds is next in importance to that devoted to rise, wheat and barley. The following table * shows the position of India in the oilseeds trade of the world :—

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*From the *Oilseeds Trade of India* by J. C. Bahl—page 137.

	India's percentage share
Mowra seed	100
Cotton seed	1
Sesamum seed	3
Castor seed	98
Rape seed	36
Groundnuts	29
Linseed	13
Poppy seed	75
Niger seed	100

It is evident from the above table that whilst India prossesses a virtual monopoly in the world trade in mowra, niger and castor seeds, she also provides a considerable portion of the world trade in rape, groundnut and linseeds.

Quantity and value :—

The following table † gives the quantity in thousand tons and value in crores of rupees of the exports of oilseeds from India :—

	1938-39		1939.1940		1940-41		1941-42		1942-43	
	Qua.	Val.	Qua.	Val.	Qua.	Val	Qua.	Val	Qua.	Val.
a. Linseed	318	4.40	219	3.18	238	3.69	256	4.00	161	3.10
b. Groundnut	835	9.93	549	7.19	339	4.06	395	4.88	258	5.13
c. Rape seed	12	0.16	22	0,33	35	0.47	34	0.46	35	0.66
d. Sesamum	8	0-15	4	0.7	4	0.07	9	0.14	10	0.25
e. Castor	8	0.10	40	.071	67	1.19	20	0.27	29	0 60

(a) Linseed :—

As will be seen from the above table the value of exports from India is about Rs. 3 crores. Almost all the output of linseed in India is exported to foreign countries. India occupies a subsidiary position in the

† From the *Trade Review* for 1942-43—page 161.

exports of linseed, being far excelled by Argentina which is offering serious competition to Indian oil-seeds in general and linseed in particular. India's production of linseed accounts for 17% of the world production while Argentina provides about 70%. As a result of this increasing competition from Argentina, the increase in demand for home-consumption, the widening gulf between the prices of linseed and other oil-seeds and recently the difficulties of transport have all contributed to a continuous decline in the quantity of linseed exports from India.

The chief qualities in which linseed is exported are bold, medium, small, yellow and brown grades.*

Direction :—

Indian linseed is exported mostly to the United Kingdom, France, Italy, Belgium, Germany and Australia. The following table † gives the quantity of exports of linseed to these countries.

(in hundreds of tons.)

Countries	1938-39	1939-40	1940-41	1941-42	1942-43
United Kingdom	2,705	1,725	1,996	211,6	126,0
France	88	24	13	...	...
Italy	9	4	...	...	...
Belgium	7	...	...	...	...
Germany	101	60	...	...	...
Australia	210	305	355	39,5	31,5
Other countries	63	74	14	5,2	3,2
Total	3,183	2,192	2,378	256,3	160,7

It is evident from the above table that the United Kingdom is the most important customer for Indian

* See the *Report on the Marketing of Linseed in India*. 1938, page 24-29.

† From the *Trade Review* for 1942-43—page 173.

linseed. Until a few years ago. Argentina was offering serious competition to Indian linseed in the United Kingdom. But after the Ottawa Trade, Agreement which conferred a preference of 10% on all Indian linseed imported into the United Kingdom, Argentine linseed has been placed at a considerable disadvantage and the initial fears raised by the Argentine competition have been considerably allayed. The effect of Ottawa Preference upon Indian linseed was remarkable, in as much as, whilst the U. K. absorbed less than 25% before the Agreement, within a couple of years, her share exceeded more than 50% of the total exports of Indian linseed. A significant feature in recent years has been the large shipments of the bold linseed to some of the Atlantic coast ports in the United States, owing to a succession of short corps in that country and low production in Argentina. Australia is a promising country which has been absorbing increasing quantities of Indian linseed in recent years, as a result of the development of the oil-mill industry in that country.

After the outbreak of the present war linseed should much greater resistance to world forces than other commodities. The prospects for linseed appeared very cheerful owing to the possibilities of huge demand for Indian linseed to provide linseed oil for the enormous naval and air-craft constructions undertaken in the western countries, shortage of butter and other fats, and a succession of short crops in Argentina. It was, therefore, feared that the export surplus available in India would be inadequate to fulfil the requirements of the Allied countries. The Government of India, therefore, by a Notification issued in April 1940, restricted the exports of linseed

together with those of rape-seed and castor seed to neutral countries with a view to conserving their supplies for the Allies. Later on, however, the loss of the Continental markets together with normal crops in Argentina, compelled the Government to relax this restriction. In 1942-45 India exported 126,000 tons of linseed to the U. K. as compared with 1,72,000 tons exported in 1939-40. The total exports decreased after the war, being 1,60,700 tons in 1942-43 as against 2,19,200 tons in 1939-40. In September 1940 the Government announced its decision to buy the bulk of its requirements of linseed in India at a fixed price of £ 12-10-0 per ton f.o.b. Indian port. Thus India's principal market is still open, although it has been considerably restricted by the difficulties of transport.

Future :—

Linseed is gradually occupying an important place in the industrial requirements of various countries as it yields a good drying oil and is also widely used for manufacturing oil-paints, varnishes, printer's ink etc. The demand for linseed, therefore, is likely to increase and production within the country is also likely to follow suit, because linseed is grown as a mixed crop. If an oil-mill industry is established in India, in the years following the present war, it is likely that the exports of linseed may be replaced by those of linseed oil.

(b) Ground-nuts :—

The value of the exports from India before the war was about Rs. 10 crores and it has now declined to about Rs. 5 crores as a result of the war.

The home consumption of ground-nut is very large. Until a few years ago, a meagre part of ground-nuts was exported to France. But, the competition of Senegal, a French Colony, has considerably reduced India's share of ground-nut imports into France. This has, however, been compensated for by the increased consumption at home and an increased demand from the U. K. and the Netherlands. The chief varieties in which ground-nuts are exported are Coromandel, Machine-shelled, Bombay bold, Khandesh, Natal, etc. The chief areas of production in India are Madras, Bombay, Hyderabad (Deccan), Central Province, and Berar, and Mysore.

Direction :—

Indian ground-nuts are chiefly exported to France, U. K., Belgium, Italy, Germany and the Netherlands. The following table * gives the quantity of ground-nut exports to these countries :—

(In hundreds of tons)

Countries.	1938-39	1939-40	1940-41	1941-42	1942-43
France	149,8	99,4	25,2		
U. K.	96,4	10,82	2141	306,3	196,8
Belgium	65,8	47,2	5,7		
Italy	34,6	19,5			
Germany	115,2	53.0			
Netherlands	321,7	126 0	13,2		
Other countries	141,6	95,3	80,3	88,7	61,1
Total	835,1	548,6	338,5	395,0	257,9

From the above table, we can see that the United Kingdom has been a growing customer for Indian ground-nuts.

* *Review of Trade*—page 174.

After the Japanese occupation of the Netherlands, the exports of Indian ground-nuts to that country have virtually ceased. Indian ground-nuts have to face competition from Senegal and other West-African ports. France, before the war, had reduced her off-take of Indian ground-nuts in favour of Senegal which was her own colony. The German occupation of France has cut off the supplies of Indian ground-nuts to that country.

After the outbreak of the present war, Indian ground-nuts suffered the greatest damage on account of the loss of the Continental markets on which it has mainly to depend. A remarkable feature of the ground-nut trade of India is the increasing proportion of the crop which is being retained for home consumption, to supply the needs of a growing oil-crushing industry within the country. With the virtual cessation of trade with the Continental countries, the U. K. has assumed special importance and the purchases from that country, combined with the home consumption, have considerably helped to counteract the initial slump in the ground-nut market in India. As will be seen from the above table exports to the U. K. in 1942-43 were only 1,96,800 tons as compared with 3,06,300 tons in the previous year. Although the total exports of ground-nuts have recorded a decline over the pre-war year of 1938-39, the exports to the U. K., have actually increased after the outbreak of the present war.

Future :—

The production of ground-nuts is likely to increase after the cessation of the present war and the growing needs of the oil-mill industry in India are likely to

reduce the exports of ground-nuts and substitute them by the exports of ground-nut oil.

(c) Rape Seeds :—

As will be seen from the table above, the total quantity of rape seeds exports is about 35 thousand tons whilst the value is about 46 lacs of rupees. Rape seed is almost entirely consumed within the country for a variety of purposes such as cooking, external application, etc. Although the area under rape seeds cultivation and the total yield is about twice that of linseed, the exports of rape seed are, however, less than those of linseed. The exports of rape seeds have been fluctuating widely owing to fluctuations in output and the relatively small part of the output which constitutes the exportable surplus. The small volume of exports is explained not only by the enormous amount of home consumption but also by the inferior quality of Indian rape seeds and the difficulty of refining the oil and making it odourless.* In spite of this, however, India occupies an important place in world trade as a supplier of rape seeds. It is chiefly grown in upper India particularly the United Provinces, the Punjab, N. W. F. Province, Rajputana, C. P. & Berar, Assam, Bihar, & Orissa and Bengal. The chief varieties in which it is exported are Ferozpore brown, toria, Cawnpore brown, Delhi brown, yellow bold, yellow small etc. †

Direction :—

Indian rape seed is exported mostly to the U. K.,

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* See Vakil, Bose & Deolalkar :- *Growth of Trade and Industry in Modern India*—page 354.

† See J. C. Bahl—*The Oilseed Trade of India.*

France, and, before the outbreak of the present war, was being sent also to Italy, Belgium and Germany. The following table * gives the quantities of exports of Indian rape seeds to these countries :—

(in hundreds of tons.)

Countries	1938–39	1939–40	1940–41	1941–42	1942–43
U.K.	27	156	235	30,2	29,3
France	36	36	95	...	...
Italy	5	...	...	...	...
Belgium	13	...	...	...	..
Germany	3	...	...	...	...
Other Countries	33	26	19	4,2	5,5
Total	117	218	349	34,4	35,2

Before the last world war, the exports of Indian rape seeds were being shared equally by Belgium, Germany and France. But after 1918 Italy began to absorb increasing amounts of Indian rape seeds whilst after the Ottawa Pact, the U.K. occupied a predominant position to the exclusion of other countries.

Foreign Competition :—

Indian rape seed has to meet competition from Roumania and Argentina in world market, particularly in Belgium.

(d) Sesamum Seed :—

Sesamum seed is also grown almost entirely for internal consumption, the exports being only about 4,000 tons, as will be seen from the above table. Sesamum seed is also grown almost all over the country particularly in the U. P., Madras, Bombay, C. P., and Berar and Hyderabad (Dn). The varieties in which

* From the *Trade Review* for 1942-43, page 173.

it is exported are white, black, yellow, red and mixed. Before the outbreak of the present war, sesamum was exported mostly to France, Italy, Belgium & Russia. But after the outbreak of the war, the exports to these countries have completely stopped. Indian sesamum seed has to face a severe competition from China and there is every likelihood that in the post-war period Chinese sesamum seed might threaten the existence of Indian sesamum seed in world market.

(e) Castor Seed :—

Castor seed is grown mostly in Hyderabad (Dn.), Madras, Mysore and Bombay. Indian castor seed is exported mostly to the U. K., and the U. S. A. India possesses a virtual monopoly of the castor seed trade of the world and the exports of castor seed have shown remarkable improvement as will be seen from the above table. From only 8,000 tons in 1938-39 the exports of castor seed jumped up to 29,000 tons in 1942-43. This is to be explained by the increased offtakes by the U. K. and the U. S. A. for lubricating their war machinery.

Problems :—

The oilseed trade of India is a very important part of her economic life. Every effort should, therefore, be made to establish the production of the trade of oilseeds on a more systematic basis. The principal needs of the oilseeds industry in India are the needs for research in oilseeds, a better marketing machinery, standardization of weights and measures the existence of a systematic produce exchange, provision of adequate storage facilities and the establishment of a flourishing oil-mill industry within

the country.* In regard to the oil-mill industry, the following observations made in the Review of the Trade of India 1878-79, will be found to be of considerable interest even to the present state of the oilseed trade of India :—

"It seems strange that the wasteful practice of exporting the seed should continue. It causes great pecuniary loss by waste and damage of the seed in transit.........It is really a national misfortune that India should send away all this oil-producing material in the crude conditions instead of pressing the oil in the country."†

Any comment is hardly necessary.

The export duty on oilseeds has also come in for considerable amount of criticism. Export duties in general are supported on grounds of revenue, only in the case of those articles in which a country has an absolute monopoly and the world demand for which is inelastic. It is also imposed to discourage the exports of a commodity which can be better utilised within the country itself. In these cases, the incidence of the export duty falls on the foreign consumer. But such absolute monopolies and inelastic demands are rare occurrences with the result that the incidence of the export duty falls on the home producer who is thereby forced to curtail his production. Some writers feel that since India's monopoly in oilseeds is more apparent than real, an export duty on oilseeds is indefensible on grounds of economic theory. The Indian Fiscal Commission considered this controversial problem in 1921. Many witnesses before the Commission advocated the imposition of a protective export duty

* See J. C. Bahl,—*The Oilseed Trade of India*—pages 1?9 to 223.
† Quoted by Vakil, Bose & Deolalkar *op. cit* page 365.

on oilseeds on the grounds of discouraging the export of the raw material, and encouraging its better utilisation within the country itself. The Commission, however, felt that such a duty would be particularly disadvantageous to the country since the Indian demand for the oil and the cake would be quite insufficient to absorb the whole product, if all Indian oil-seeds were crushed within the country. Furthermore, they felt that there were considerable difficulties in developing the oil-mill industry. The export duty on oilseeds was also advocated to discourage the export of manures and to retain within the country the oil-cake which has a high manurial value. ‡ The Commission, however, felt that a mere imposition of an export duty on oil-seeds would not by itself lead to the utilisation of the oil-cake for manure within the country, owing to the ignorance and prejudice of the Indian cultivator against the use of manure on the one hand and his financial inability to purchase the oil-cake. The Commission therefore, concluded that the main result of imposing a protective export duty on oil-seeds would be that the producer would be sacrificed to an unsound economic theory and that the production of a valuable crop would be discouraged. § The Commission, therefore, recommended the imposition of a small cess on the exports of Indian oilseeds.

7. HIDES AND SKINS

The word *hides* generally indicates the skins of cows and buffalos whilst the word *skins* represents the skins of goats, sheep and other smaller animals. Raw hides

‡ See K T. Shah, *Trade Tariffs & Transport*—page 291.

§ See the Report of the Indian Fiscal Commission, 1921-22 paras 194-195, page 100-101.

and skins are bought at the slaughter houses by the purchasing agents of the manufacturers and brought to the factory where the hides and skins are tanned. Almost all the skins and more than half of the hides are exported to foreign countries for being tanned and manufactured into finished goods. A leather-tanning industry, however, is gradually developing in India and the home consumption is also consequently increasing. The exports of hides and skins are classified into two main classes. (i) Raw hides and skins (ii) Tanned hides and skins of cows, buffalos, goats and sheep only. The following table * gives the figures pertaining to the exports under both these heads :—

EXPORTS OF HIDES & SKINS

	Raw		Tanned	
	Quantity in 100 tons.	Value in Crores (Rs.)	Quantity in 100 tons.	Value in Crores (Rs.)
1938-39	346	3.66	188	4.44
1939-40	313	3.99	296	6.36
1940-41	266	3.08	218	5.39
1941-42	348	4.73	206	5.63
1942-43	205	3.33	153	4.47

From the above table we see that before the outbreak of the present war, the exports of raw hides and skins were declining while those of tanned hides and skins were increasing, thus indicating the pre-war stimulus which the Indian leather industry was receiving.

* From the *Trade Review* for 1942-43—page 93-94.

Direction :—

Indian raw hides are exported to the U. K., and the U. S. A., whose offtakes have increased tremendously during the last two years. Before the outbreak of the war, Indian raw hides were also exported to Italy, Belgium and Germany and the Netherlands. Germany was showing remarkable progress in absorbing Indian raw hides as a result of the development of an extensive tanning industry in that country.

In regard to the export of raw skins, the U. S. A. is our best single customer while the other customers are the U. K. and France. The goat skins constitute a major portion of the exports of raw skins from India. The quantity of raw goat-skins exported from India in 1942-43 was 15,500 tons, whilst that of sheep-skins was only 500 tons in the same year.

Indian tanned hides are exported almost exclusively to the U. K. The value of exports to the U. K. in 1942-43 was Rs. 2 crores whilst the other countries absorbed only Rs. 23.8 lakhs worth of Indian tanned hides. The quantity of tanned hides has been consistently declining and it fell to 15,300 tons in 1942-43 from 18,800 tons in 1938-39.

Indian tanned skins are exported mostly to the U. K., and also to the U. S. A. Before the outbreak of the present war, Japan was absorbing increasing quantities of Indian tanned skins but the war has completely cut off this trade with Japan.

Effects of War :—

The huge government orders for tanned leather to fulfil their war requirements resulted in an acute shortage of stocks of tanned leather within the country,

an enormous rise of prices and an almost complete stoppage of exports. The difficulties and uncertainties of inland transport, owing to the pressure of war materials, made it almost impossible for the raw hides to be carried promptly to the factories. This was aggravated by the heavy increase in the cost of production and prices of raw materials. The rise in the prices of milk and the fall of Burma which was a very good market for Indian meat, resulted in a diminution of the number of animals killed and this aggravated the shortage of raw and tanned hides and skins in the country. The Government of India, therefore, introduced a statutory control on the leather trade from 1st September 1942, under which some tanneries were placed under an obligation to fulfil their requirements of raw hides at prices fixed by the Government. The bombing of Vizagapatam and Cocanada gave a great setback to the hides and skins trade of Madras and Cawnpore. The export trade in hides and skins fell heavily in the second year of the war, although the situation has been improved by heavy purchases by the Ministry of Supply in London which made considerable allowance to Indian shippers for prolonged delays in shipment due to present difficulties of international transport. The export trade in buffalo hides recorded a considerable decline owing to a strong demand within the country. The trade with the U. S. A. suffered a considerable setback owing to restrictions imposed upon the exports in India and on imports of Indian hides and skins into the U. S. A. The Controller of Leather and Tanning Industries is, however, exploring the various avenues in order to overcome the present difficulties of trade in Indian hides and skins.

8. WHEAT

India occupies an insignificant position both as a producer and exporter of wheat in world trade. Wheat constitutes an important article of consumption within the country and the exports are both meagre and fluctuating and depend upon the requirements of the home market. Although wheat is an important commercial crop, the exportable surplus has shown great variations in the past. The cultivation of wheat is concentrated mostly in Northern India, particularly the Punjab, the Central Provinces and the U. P. which together account for more than 80% of the acreage under wheat cultivation in India. At present India grows less than one acre of wheat for every ten persons whilst Canada and Australia produce 2 to 2½ acres for every man and some of the Continental countries like France and Italy have one acre of wheat for every three persons and the U. K. one acre for every four persons, A major part of the production is retained for home consumption and exports constitute a very small part of the total production of wheat in India. This will be quite evident from the following table. * :—

PRODUCTION AND EXPORTS OF WHEAT

(In thousand Tons)

Year	Production	Exports	Value in Rs. Crores.
1936-37	9,752	235	2.12
1937-38	10,764	460	4.62
1938-39	9,963	279	2.48
1939-40	10,767	8	.10
1940-41	10,027	45	.50
1941-42	10,037	186 •	2.42
1942-43	11.032	8	.12

* See *The Trade Review* 1942-43—Page...91.

From the above table it is clear that the value of exports has declined tremendously after the outbreak of the present war. Normally the exports of Indian wheat are influenced very largely by the conditions in world markets. Indian wheat has to face a severe competition from American, Canadian and, in recent years, Australian wheat. It is only when these countries are unable to fulfil world demand that the Indian wheat exports receive considerable stimulus. India is at a comparative advantage in world wheat markets, owing to the time of wheat-harvest in India. Indian wheat is harvested mostly between the months of March and May when the other wheat producing countries have already disposed of their stocks. India is thus placed in a position to take advantage of this inevitable absence of her competitors from world markets.

EXPORTS OF WHEAT

(In thousand tons)

	1938-39	1939-40	1940 41	1941-42	1942-43
British Empire					
U. K.	206	...	13	...	...
Burma	5	3	5	8	...
Other Parts of British Empire	2	3	3	3	...
Total British Empire	213	6	21	11	...
Foreign countries					
Italy	8	...	...	...	...
Belgium	7	...	...	...	...
Germany	48	...	...	...	...
Other Foreign countries	2	2	24	175	8
Total Foreign countries	66	2	24	175	8
Total all countries	279	8	45	186	8

Direction :—

Before the outbreak of the present war, Indian wheat was being exported mostly to the U. K., Germany, France and Italy. The war has cut off the Continental markets for Indian wheat, although the huge war purchases by the U. K. have offered adequate compensation for the loss. The above table * gives the direction of the exports of Indian wheat.

Effects of War :—

Demand for wheat increased enormously chiefly owing to large-scale military purchases, shipment to neighbouring countries like Iran and Ceylon, rise in money incomes within the country due to inflation, the accumulation of strategic reserves by provincial Governments, and native states and finally a large-scale hoarding by producers and dealers to obtain better prices and also to safeguard themselves from the uncertainties of war situation. The Government issued a Wheat Control Order in April 1942 in order to relieve the distress of the population resulting from the acute shortage of wheat within the country. Recently, however, the Government of India have decided to decontrol wheat.

Future :—

The production of wheat within the country is likely to increase in future. Against this we have also to consider the possibility of increased home consumption due to the increase in population and the standard of life within the country. Immediately after the war, however, Indian exports of wheat are likely to increase to fill up the gap created by the present war

* From the *Trade Review* for 1942–43 page—175.

conditions. But the resumption of normal Canadian and Australian production and trade will make it difficult for India to retain this position in world markets.

9. RICE

India occupies a predominant position both as a producer and exporter of rice in the world. She accounts for about half the world output and exports of rice. In spite of the fact that rice is an important article of staple food of a large part of the population, the exports of rice from India are comparatively huge. The chief areas of production in India are Bengal, Madras and Bombay provinces and the Deccan. In spite of large production in India, considerable quantities of rice are imported mostly from Burma. The following table* gives the production, exports and imports of rice :—

(in thousand tons.)

	PRODUCTION	EXPORTS	IMPORTS
1936-37	27,824	235	1,419
1937-38	26,699	227	1,198
1938-39	23,962	282	1,282
1939-40	25,734	262	1,887
1940-41	22,191	251	1,207
1941-42	25,351	303	982
1942-43	24,896	255	18

The following table† gives the quantity and value of the exports of rice from India.

	Quantity (in thousand tons.)	Value in Crores of Rupees
1938-39	282	3.17
1939-40	262	3.19
1940-41	251	3.35
1941-42	303	4.83
1942-43	255	5.25

* *Ibid*—page 90.

† *Ibid*—page 162.

The exports of rice have received a considerable amount of stimulus after the outbreak of the present war. From 2,82,000 tons in 1938-39 the exports declined to 2,55,000 tons in 1942-43 due to increased demand within the country.

Direction :—

India exports her rice mainly to certain Asiatic countries such as Ceylon, Dutch East Indies, Straits Settlements and certain Continental countries like the U. K. and, until recently, Germany. A few years ago China, Japan, Germany and Java were good markets for Indian rice, but now exports to these countries have completely stopped. Ceylon imports Indian rice because she does not produce enough rice to feed her population, a large part of her agricultural land being devoted to more profitable crops such as tea and rubber. The following table § gives the direction of Indian rice trade :—

EXPORTS OF RICE.

(In thousand tons)

Countries	1940-41	1941-42	1942-43
British Empire :			
United Kingdom	6	5	...
Ceylon	117	144	179
Straits Settlements	10	7	...
Mauritius	29	22	23
Other parts of Br. Empire	48	73	21
Total British Empire	210	251	223
Foreign Countries :			
Arabia	36	46	32
Other Foreign Countries	5	6	...
Total Foreign Countries	41	52	32
Total	251	303	255

§ From the *Trade Review* for 1942-43—page 175.

After the outbreak of the present war, the heavy demand for rice from eastern countries particularly Japan led to a heavy pressure on Burmese rice which was formerly being imported into India. The cessation of the imports of Burmese rise combined with the failure of the crop within the country, resulted in an acute shortage of rice within the country.

Future :—

Indian rice is imported by Western countries for numerous non-food purposes such as manufacture of starch, distillation etc. and the demand for rice by these countries in the post-war period, when they will resume their normal economic activities, is likely to stimulate the exports of rice from India. Indian rice will have, however, to face competition from American, Italian and Spanish rice. But in view of the possibility of decreased imports from Burma there is a great likelihood of a reduction in the amount of rice surplus available for export. In any case, rise is a very valuable article of food within the country and as such this valuable source of food supplies should be conserved within the country to meet any emergency. And, even if it is found prudent and possible to export rice from India, care should be taken to see that it is properly graded and marked in order to enable it to stand up against the severe competition in the world market for rice.

10. TOBACCO

Tobacco is one of the important commercial crops grown in India. Excluding China, India occupies the next important place to the U. S. A. as a producer of tobacco in the world. She accounts for about

23 % of world production of tobacco along with Burma. But Indian production is almost entirely consumed within the country, the annual average exports constituting barely 2% of the total production. The chief areas of production are the North Bengal area, the Charotar in Gujrat, Nippani, Guntur, N. Bihar, Vizagapatam, Monghyr district in Bihar, and Cuttack district in Orissa and the U. P. Some of the Indian States like Baroda, Cooch-Bihar, Nizam's Dominions also produce considerable quantities of tobacco.

The exports of tobacco from India consist mainly of manufactured tobacco, cigars and cigarettes. The chief ports of export are Calcutta, Madras, Bombay, and Karachi. The following table* gives the quantity and value of the exports of tobacco from India :—

EXPORTS OF TOBACCO

Quantity : in thousands of lbs
Value : in thousands of Rs.

	1938-39		1939-40		1940-41		1941-42		1942-43	
	Qua.	Val.	Qua.	Val.	Qua.	Val.	Qua.	Val.	Qua.	Val.
Tobacco										
Unmanufactured	60143	20087	57627	18068	70860	17670	62018	18503	37077	13785
Cigars	34	68	55	81	41	43	47	57	23	70
Others	4966	7408	4290	7132	4897	11052	3386	3441	1439	1065

Direction :—

Indian unmanufactured tobacco is sent mainly to the U. K., Aden and Dependencies, and, until recently

* From the *Trade Review* for 1942-43—page 163.

Japan. The following table* gives the average proportion of exports :—

Country	Quantity %	Value %
U. K.	40.3	46.4
Aden & dependencies	19.7	23.5
Str. Settlements	5.6	6.2
Federated Malay States	2.7	3.0
Hongkong	4.5	1.2
Other Empire countries	1.1	1.1
Japan	15.4	13.3
Netherlands	7.6	3.3
Belgium	1.2	0.6
Other foreign countries	1.9	1.4
Total	100.0	100.0

The manufactured tobacco constitutes a great bulk of the exports. The U. K., Aden and Dependencies, Japan and Netherlands together absorb 83% of the average annual exports of Indian tobacco.

Indian tobacco is assuming increasing importance in the English market and at present over ¼ of the unmanufactured tobacco imported into Britain from Empire countries is Indian. This is the result of the Preference granted to Indian tobacco in England under the Ottawa Pact. The exports to Japan were of only a temporary nature since Japan herself is an important exporter and producer of tobacco. Indian cigars are sent mostly to the U. K., Ceylon and Str. Settlements, which together purchase about 80% of the total average quantity of exports. Indian cigarettes are exported mostly to Ceylon, Str. Settlements, and the Federated Malay States.

* From the *Report on the Marketing of Tobacco in India and Burma* 1939—page 57.

Future :—

Indian tobacco is not properly graded and thus is not likely to stand the increasing competition from the U. S. A., China, Dutch East Indies and others. The internal consumption of tobacco has been increasing enormously in recent years, the annual average consumption per head being about 3 lbs. As a result of this it is likely that the exports of tobacco may decline in the post-war period. The character of the exports may also change in that the exports of unmanufactured tobacco may be replaced by those of cigars and cigarettes.

CHAPTER VII.

CHIEF IMPORTS OF INDIA

1. COTTON MANUFACTURES

THE imports of cotton manufactures constitute a very important item being about 15 to 20% of the total import trade of India. The important varieties in which the cotton manufactures are imported are unbleached, grey, bleached, white, coloured, hosiery, handkerchiefs and shawls. The following table * gives the quantity and value of the imports of cotton manufactures into India.

IMPORTS OF COTTON MANUFACTURES

(Quantity in Millions)
(Value in Crores of Rs.)

Cotton Manufactures.	1938-39 Q.	V.	1939-40 Q.	V.	1940-41 Q.	V.	1941-42 Q.	V.	1942-43 Value	
							61	1	...	0.01
							39	1	5	0.32
							81	2	8	0.46
							8	1	1	0 16
							...	.16	...	...
							3	.05	...	...
							1	.53	5	0.19
<u>Piece Goods.</u>										
Grey Yards	258	3	236	3	172	2				0.01
White	179	3	134	3	97	2	182	44		0.32
Coloured Yards	210	4	210	4	178	4				0.46
Twists & Yarn lbs.	36	3	41	3.5	19	2				0 16
Hosiery	...	.18	...	0.12	...	0.18	...	7		0 0085
Handkerchiefs and Shawls-Nos.	5	0.04	4	0.04	10	00.13				
Sewing Thread	1	0.04	1	0.4	1	0.5				

* From the *Trade Review* for 1942-43—page 149,

Although the home cotton mill industry has been developing rapidly, it is not able to satisfy completely the home demand. In recent years the progress of the handloom industry has satisfied an increasing portion of the total demand for piecegoods within the country. The handloom production amounts to about 20 million yards. Then again, the Swadeshi Movement has also curtailed the consumption of foreign cotton manufactures, As a result of all these factors the imports of cotton manufactures into India have been recording a declining tendency in recent years. The imports of twist and yarn, however, are steady owing to the development of the Indian cottonmills industry. After the outbreak of the present war, the quantity of piecegoods has declined heavily from about 447 million yards in 1940-41 to 13 million yards in 1942-43, the corresponding value has also gone down from about Rs. 8 crores in 1940-41 to Rs. 78 lacs in 1942-43. The piecegoods consist of dhoties, saries, jaconets, longcloth and shirtings, drills and jeans, twills, cambrics, prints, chintz etc.

Origin :—

The U. K. has for a long time occupied a dominant position as a supplier of cotton piecegoods to India, although in recent years she has had to share that privilege with Japan. Japan came up on the scene as an important supplier of cotton manufactures to India from the time of the last world war, when the imports from other countries had ceased. Japan would probably have made much greater encroachment upon U. K's share but for the Imperial Preference under the Ottawa Pact granted to British manufactures. The

other countries which fulfil our requirements of cotton manufactures are China, U. S. A., Switzerland and, before the present war, Italy, Straits Settlements and Netherlands.

Future :—

The production of piecegoods within the country is likely to increase enormously and the imports of cotton manufactures are likely to decline still further. It is likely that, in the post-war period, U. S. A. will occupy a predominant position as an exporter of cotton piecegoods to India, until, of course, England and Japan resume their normal production and exports.

2. MACHINERY AND MILLWORK

The imports of machinery are of very great significance to India from the standpoint of the changing character of her economic structure. Before the present war, the imports of machinery were steadily rising owing to the increasing industrialization within the country. The need for India to import machinery from foreign countries is regarded by some as a source of weakness in India's economic life. But it should be remembered that in the initial stages of industrialization, these imports are inevitable. The imports of machinery and millwork consist of prime movers, electrical machinery, boilers, machine tools and machinery pertaining to mining, oil-crushing and refining, paper mill, refrigerating, rice and flour mills, saw mills, sewing and knitting, sugar, tea and cotton mills, and jute mills. In addition to these, typewriters, printing and lithographing presses and belting for machinery are also imported under this head. The major part of

imports is constituted by electrical machinery, the cotton mill and jute mill machinery, which is a clear indication of the growing importance of these industries within the country. The value of agricultural machinery amounted to Rs. 107 crores in 1940-41, as compared with Rs. 2.4 crores in 1939-40 and Rs. 3.7 crores in 1938-39. The value of imports of cotton machinery was Rs. 1.4 crores in 1940-41 as compared with Rs. 2 crores in 1939-40 and Rs. 2.8 crores in 1938-39. In 1941-42 and 1942-43 the value amounted to Rs. 1.81 and Rs. 1.83 crores respectively.

Origin :—

The important countries which supply machinery and millwork to India are the U. K., the U. S. A. It may be seen from the following table that imports from the United Kingdom have increased to 74.3% as compared with 60.9% in 1941-42. The share of the U. S. A. has however declined to 21% of the total imports in 1942-43 as compared with 31% in 1941-42. The imports from the U. S. A., after the last war, were particularly heavy owing to large imports by the Tata Iron & Steel Co. The following table * gives the percentage shares of the different countries supplying machinery to India :—

Countries	1938-39	1939-40	1940-41	1941-42	1942-43
U. K.	58.8	60.9	62.8	60.9	74.3
U. S. A.	11.4	17.2	27.0	30.7	21.3
Germany	16.1	9.2	0.2	...	...
Belgium	2.0	1.7	0.5	...	...
Other Countries	11.7	11.0	9.5	8.4	4.4
Total	100.0	100.0	100.0	100.0	100.0

From the above table it will be seen that the U. K.

* From the *Trade Review* for 1942-43—page 71.

provides more than half of India's requirements of machinery and millwork. America's share in this trade is also gradually increasing, whilst Germany and Belgium showed great promise before the outbreak of the present war.

Effects of War :—

The present war has reduced the imports of machinery into India owing to the occupation of her supplies with war-industries and also the difficulties of transport. The statistics relating to the quantity of imports of machinery are not available; but from the decline in value, we can conjecture that the quantity also must have declined. The value of total machinery imported into India amounted to Rs. 5.44 crores in 1940-41 as compared with Rs. 2.24 and Rs. 4.59 crores in 1938-39 and 1939-40 respectively. In 1941-42 there was a slight improvement in the value of imports which rose to Rs. 12.84 crores. This might also have been due to rise in prices and not necessarily to an increase in quantity.

Future :—

India's requirements of machinery have had to be postponed to the post-war period during which the imports of machinery are likely to be very large. The present machinery is being overworked owing to difficulties of replacements and, Indian production in the post-war period will depend largely upon the imports of new machinery. For the first few years the imports are likely to be very small but after our supplies resume their normal production, they will rise enormously particularly in view of the demand that may be made on the Indian industries to fulfil the requirements of manufactures of certain neighbour-

ing countries like South Africa, Dutch East Indies and the trans-frontier countries. The trend of the imports of machinery will of course depend upon the industrial policy of the Government of India.

3. ARTIFICIAL SILK

The imports of artificial silk constitute about 5% of the total imports of India. Although there is a flourishing industry within the country, the production is mostly handloom and the quality is inferior, with the result that India is compelled to import superior artificial silk from China and Japan. The following table * gives the value of the imports of artificial silk into India :—

IMPORTS OF ARTIFICIAL SILK

Value in crores of Rs.

1938-39	1939-40	1940-41	1941-42	1942-43
2,24	4.59	5.44	3.49	.23

Immediately after the outbreak of the present war the imports of artifical silk received considerable stimulus, owing to heavy demand to fill up the gap created by the cessation of the imports of cotton manufactures. Then again, the war had not affected the Far Eastern communications and the general trade activity with the Far Eastern countries increased. This, of course, had an encouraging effect upon the imports of artificial silk. But since 1941-42, however, the value of artificial silk imports declined owing to

* From the *Trade Review* for 1942-43–page 153

the entry of Japan into the war. The figures relating to the quantity are not available and it can only be presumed that the changes in the value of imports were in direct proportion to those in quantity. The imports are classified into two sections (i) Artificial silk yarn and (ii) Piecegoods. In 1940-41 the imports of yarn amounted to 33.9 million lbs. valued at Rs. 2.65 crores, whilst in 1941-42 the value declined to Rs. 1.55 crores. Probably the quantity also must have declined correspondingly. Imports of piecegoods made entirely of artificial silk fell from 54 million yards in 1939-40 to 53½ million yards in 1940-41, although the value rose from Rs. 2.11 crores to Rs. 2.45 crores during the same period. In 1941-42 the value of artificial silk piecegoods, however, declined to Rs. 1.68 crores.

Origin:

Japan occupies a leading position as a supplier of artificial silk and piecegoods to India, fulfilling more than 91% of her total requirements; e. g. in 1940-41, Japan provided 32.5 million lbs. out of a total of 34 million lbs. of artificial silk yarn imported into India. Similarly out of 54 million yards of piecegoods imported into India in the same year, Japan provided 51 million lbs. Next to Japan the U. K. provides the remainder of india's requirements of artificial silk piecegoods, the value in 1940-41 being Rs. 12 lakhs. The U. K.'s share is however, steadily increasing particularly after the cessation of imports from Japan. Before the present war, Italy used to send considerable quantities of artificial silk yarn, the quantity being about 10 million lbs.; but the Italian imports have now completely stopped.

Future :—

If the Indian handloom silk industry is reorganised along better lines, India can look forward to be independent of the foreign supplies of artifical silk in the post-war period. There is a great scope for the devolopment of the home market in artifical silk piecegoods. There is agreat likelihood that immediately in the post-war period, India might increase her purchases of foreign silk yarn at the cost of piecegoods.

4. INSTRUMENTS AND APPARATUS

The value of imports of instruments and apparatus forms about 3% of the total value of imports of India. The various instruments included under this are electric fans, wires, cables, lamps, batteries, switch-boards, lighting accessories and fittings, telegraph and telephone instruments, electric carbons, accumulators, meters, electro-medical apparatus, photographic instruments, wireless apparatus and, in recent years, cinema talkie apparatus. The following table* gives the value of the imports of instruments and apparatus into India :—

IMPORTS OF INSTRUMENTS AND APPARATUS

(Value in Crores of Rs.)

1938-39	1939-40	1940-41	1941-42	1942-43
5.85	5.58	4.99	5.14	3-38

The imports of electric fans have declined in recent years owing to the development of home industries such as the Indian Electric Works. The rapid spread of electricity in the country and also the establishment of

* From the *Trade Review for 1942-43*, page 150

new factories has increased India's demand for electric instruments and apparatus. The imports of cinema talkies apparatus are a new feature and the value is normally about Rs. 15 lakhs.

Origin :--

The U.K. supplies most of India's requirements of instruments and apparatus, although, in recent years, Germany, the U.S.A. and Japan have been offering serious competition to her in the Indian market. The war has stopped imports from Germany and Japan with the result that the U.K. and U.S.A. now dominate Indian imports of instruments and apparatus.

5. WOOL (Raw & Manufactured)

Raw wool and woollen manufactures constitute about 3% of the value of total imports of India. Raw wool accounts for more than half of the total value of woollen imports. Woollen manufactures are divided into piecegoods, shawls and lohis, carpets and floor rugs, hosiery, yarn and knitting wool. The following table* gives the value of imports of raw and manufactured wool into India :—

IMPORTS OF WOOL

(Value in crores of Rs.)

	1938-39	1939-40	1940-41	1941-42	1942-43
Raw	6.2	7.5	27.9	27.7	29.6
Manufactured	21.9	14.1	14.9	19.2	8.2

The total value of woollen piecegoods and shawls and lohis in 1941-42, † and 1942-43 amounted to

* From the *Trade Review* 1942-43. page 150.

† From the *Monthly Account* March 1942, page 21.

Rs. 0.63 and Rs. 0.29 crores respectively. A notable feature of the imports of raw and manufactured wool into India is the phenomenal rise in the imports of raw wool and a corresponding decline in the imports of woollen manufactures into India. The increase in the imports of raw wool is accounted for by the heavy demand for consumption by Indian mills which rose to about 19 million lbs. valued at about Rs. 3 crores in 1942-43 as compared with only about 8 million lbs. valued at Rs. 75 lakhs in 1939-40. A striking feature of the raw wool imports is the rise in the supplies from New Zealand which amounted to 11.6 million lbs. valued at about Rs. 1 crore in 1940-41, as against only 14,000 lbs. valued at Rs. 12,000 in the preceding year.

Origin :—

The supplies of raw wool come mostly from Australia and New Zealand whilst the U. K. supplies mostly knitting wool to India. Woollen piecegoods consist mostly of hosiery blankets, and rugs etc. Japan had a virtual monopoly of the supplies of woollen piecegoods to India whilst the other suppliers were the U. K., Germany, Netherlands, Belgium. France and Italy. In 1940-41 Japan supplied us with Rs. 41 crores worth of woollen piecegoods, as compared with only Rs. 15 crores worth supplied by the U. K. Before the outbreak of the present war, Germany and Italy had been promising suppliers of woollen piecegoods to India. Imports of foreign carpets and floor rugs amount Rs. 4 lakhs and more than half is supplied by Iran and the remainder by the U, K. and Iraq almost in equal production. Shawls and lohis used to come exclusively from Japan before

the present war. Imports of blankets and rugs come from the U. K whilst Italy was an important supplier before the war. Woollen hosiery was being supplied almost in equal proportions by the U. K. and Japan.

Future :—

The Indian woollen industry is making remarkable progress and there is a great likelihood that in the post-war period, the industry may be in a position to fulfill the home demand satisfactorily. Thus the imports of woollen piecegoods may decline and those of raw wool may increase in the years following the present war. There is even a possibility of India exporting woollen manufactures to other countries. The industry must, of course, be properly aided by an appropriate fiscal policy by Government.

6. DRUGS & MEDICINES

The imports of drugs and medicines into India form about 1 1/2% of the value of total imports into India. The various drugs and medicines that are included under this head are camphor, proprietory and patent medicines and quinine salts. The table * on next page gives the quantity and value of the imports of drugs and medicines into India.

From the table it will be seen that the patent medicines constitute the most important single item under this head. As a result of the war, the value of imports has risen from Rs. 2.21 crores in 1938-39 to Rs. 2.79 crores in 1941-42. From the figures relating to quantity of imported drugs and medicines it is clear that the

* From the *Trade Review* for 1942-43 page—151.

rise in value has been occasioned by a rise in prices.

IMPORTS OF DRUGS & MEDICINES

Quantity in thousand lbs.
Value in crores of Rs.

	1938-39		1939-40		1940-41		1941-42		1942-43	
	Qua.	Val.	Qua.	Val.	Qua.	Val.	Qua.	Val.	Qua.	Val.
Camphor	1869	0.22	1737	0.29	1117	0.27	688	0.15	47	0.01
Proprietory & patent Medicines	...	0.61	...	0.89	...	0.65	...	0.5	...	0.29
Quinine Salts	98	0.25	83	0.25	100	0.32	174	0.6	40	0.15
Other sorts	...	1.13	...	1.18	...	0.95	...	0.54	...	1.02
Total		2.21		2.61		2.19		2.79		1.47

Origin :—

Proprietory and patent medicines come mostly from the U. K. whose share in 1940-41 was Rs. 0.48 crores out of the total imports of Rs. 0.65 crores, The U. S. A. also sends us patent medicines to the extent of about Rs. 0.20 crores. Camphor comes to India in large quantities from Japan which in 1940-41 supplied 6,94,000 lbs. valued at Rs. 19 lakhs out of the total of 11,31,000 lbs. valued at Rs. 27 lakhs. Quinine salts come mostly from Java and the U. K. Imports of quinine from Java increased tremendously as a result of the virtual cessation of imports of English quinine, at the beginning of the war but declined subsequently.

Future :—

Scientific research is being carried on in India to find a substitute for quinine and also to manufacture

quinine within the country. If the results of this research are encouraging, it is possible that India, in course of time, may be independent of the foreign supplies of quinine. In regard to proprietory and patent medicines, Indian chemical works are making considerable progress and may be expected to satisfy the home demand to a great extent in future.

7. HARDWARE

Hardware constitutes about 1½% of the value of total imports into India. Under this head are included agricultural implements, builder's hardware, domestic hardware, enamelled ironware, metal beams, stoves and gas mantles. The following table * gives the value of the imports of hardware into India :—

IMPORTS OF HARDWARE

(Value in crores of Rs.)

1938-39	1939-40	1940-41	1941-42	1942-43
2,57	2.27	2.06	2.18	1.00

The most important items under this head are builders' hardware, implements and tools and metal lamps. The noticeable feature of the total imports of hardware is the steadiness of their value

Origin :—

Agricultural implements come mostly from the U. K. which provides almost the entire requirements of India in this respect. Metal lamps came mostly from Germany and Japan, before the war, the next important suppliers being the U. K., the U. S. A., China and Hongkong. Enamelled ironware was

* From the *Trade Review* 1942-43—page 151

being supplied by Japan, whilst builders' hardware came mostly from the U. K. and Japan. Gf the total imporsts of hardware, the U. K. provides about 66%, whilst the U. S. A. comes next with 23%. Japan's share before the war was increasing having been 10% in 1941-42. The following table ‡ compares these percentages with those for the preceding four years :—

IMPORTS OF HARDWARE

	1938-39 percent	1939-40 percent	1940-41 percent	1941-42 percent	1942-43 percent
U. K.	38	38	39	33	66
Germany	29	21	...	...	...
U. S. A.	9	14	23	40	23
Japan	8	11	18	10	...
Other countries	16	16	20	17	11

Future :—

Agricultural implements are being manufactured in India particularly by the Tatas and the production is likely to increase in future, with a depressing effect upon imports. The imports of other classes of hardware are, however, likely to increase in the post-war period to fill up the gap created by the cessation of imports during the present war.

8. SILK MANUFACTURES

Imports of silk manufactures constitute about 1% of the value of total imports into India. The following table † gives the value of the imports of silk manufactures into India :—

‡ From the *Trade Review* for 1942-43—page 160.

† From the *Trade Review* for 1942-43—page 159.

IMPORTS OF SILK MANUFACTURES

(Value in Crores of Rupees)

1938-39	1939-40	1940-41	1941-42	1942-43
1.00	0.95	0.64	0.52	0.0067

As a result of the war the imports of silk manufactures into India have declined from Rupees one crore in 1938-39 to Rs. 67 thousands in 1942-43.

Origin :—

Silk piecegoods come mostly from Japan and China, the other suppliers being the U. K. and France. In 1940-41 Japan supplied about 3 million yards valued at Rs. 31 lakhs as against 5 million yards valued at Rs. 31 lakhs in the previous year. In the same year China supplied silk piecegoods worth Rs. 14 lakhs as compared with Rs. 19 lakhs in the preceding year. The following table ‡ compares the value of the imports from these countries in 1942-43 with the preceding four years :—

IMPORTS OF SILK PIECE GOODS

(Value in thousands of Rupees)

	1938-39	1939-40	1940-41	1941-42	1942-43
U. K.	17	18	13	19	5
France	15	14	2	...	...
China	1690	1866	1369	1566	1
Japan	4502	3071	2140	1391	4
Other Countries	521	464	561	358	4

‡ From the *Trade Review* for 1942-43—page 155.

Future :—

The silk industry in India is making rapid progress particularly in Mysore, Bangalore, Kolar & Tumkur in the South and Kashmir in the North. The seri-culture industry is flourishing in Mysore, Bengal and Kashmir and the future of home production of silk piecegoods depends largely upon the progress of the Indian seri-culture Industry. Indian production of silk piecegoods is based on the handloom type of industry and, if proper steps are taken to introduce the power-loom and to re-organise the industry in other directions, we may be able to take advantage of the present cessation of imports from China and Japan and in course of time, be independent of foreign supplies There is a great scope for this industry in India provided, of course, it is properly developed.

9. RUBBER MANUFACTURES

Rubber manufactures constitute about 1% of the value of total imports into India. In 1941 the value of rubber manufactures imported into India was Rs. 1.56 crores as compared with Rs. 1.48 crores in the preceding year. Rubber manufactures consist of pneumatic motor covers, motor-cycle covers,. cycle covers and tubes, and solid rubber tyres, Tht most important item is the pneumatic motor cover which in 1940-41 numbered about 13 lakhs valued at about Rs. 1 crore as compared with Rs. 21 lakhs valued at about Rs. 1 crore in the preceding year. The imports of pneumatic motor covers represent 70 per cent of the total value of rubber manufactures imported into India.

Origin :—

The important countries supplying rubber manu-

factures to India are the U. K., the U.S.A., although Japan had been showing considerable progress before the present war. The following table* gives the value of the total imports of rubber manufactures into India :—

IMPORTS OF RUBBER MANUFACTURES

(Value in thousands of Rs.)

	1940-41†	1941-42†	1942-43†
	1,87,89	2,35,45	26,23

Future :—

Imports of rubber manufactures are likely to increase enormously in the post-war period because India does not produce any raw rubber. The heavy demand for motor vehicles that will follow the present war may also result in heavy imports of rubber manufactures into India.

* From the *Trade Review* for 1942–43 page 153.

† Including raw rubber.

CHAPTER VIII

RE-EXPORT, COASTAL AND LAND-FRONTIER TRADES

I. RE-EXPORT TRADE

THE re-export trade of a country consists in the exports of articles previously imported into the country and stored into bonded or port-trust warehouses on the payment of provisional customs duty. Very often it happens that foreign steamers discharge cargo in Indian ports intended for an ultimate destination outside India, e. g., American steamers discharge in Bombay goods from American ports intended for Persian Gulf ports, because the steamers do not proceed to the Persian Gulf for many reasons such as inadequacy of cargo etc. The local agent of the ultimate consignee clears the goods and stores them in the Port Trust or Customs warehouses, pending the arrival of the on-carrier. Re-export trade is also sometimes called *entrepot* trade. Re-export trade should be properly distinguished from the exports of foreign merchandise. In the case of re-exports, as already noted, the goods are stored in warehouses on payment of provisional duty, whereas in the case of the exports of foreign merchandise, the goods are actually imported into the country on payment of customs duty and stored by the merchants in

their own godowns pending the arrival of the on-carrier. These goods are then exported as normal exports from the country. Whereas the merchants obtain a drawback of customs duty on re-exports, no refund of duty is made on the exports of foreign merchandise. 'It is of the essence of an *entrepot* trade that it should consist chiefly of articles of special production or manufactures of foreign countries which, for geographic or allied reasons of trade organization, have to be halted at an intermediate station from whence they are re-exported.'* This, however, is not the case with the exports of foreign merchandise.

FAVOURABLE CONDITIONS

1. Situation :—

In order to carry on a flourishing re-export trade, a country must occupy a central geographical situation so that all the surrounding countries may be conveniently supplied with foreign re-exports. The situation must be such that the goods must be easily and cheaply transported to the surrounding countries either by land or by sea. In this respect India is very favourably situated occupying a central situation in the Eastern hemisphere in general and Indian Ocean in particular. She can thus act as the distributing centre for the entire continent of Asia in regard to the Western manufactures. India may be called the *Gateway of Asia* and thus may be regarded as being very favourably situated for the re-export trade of the world.

2. Hinterland :—

If a country wants to occupy an important position in world re-export trade, it must have a rich and vast

* See K. T. Shah, *Trade Tariffs & Transport*—page 95.

hinterland which provides the country with valuable exports and in turn absorbs huge quantities of foreign imports through the intermediation of the country concerned. In the case of India, her natural hinterland is composed of Nepal, the Shan States, Afghanistan, Iran, Tibet, Western China, Persia, Central Asia and Siam. These countries are rich in natural resources and thus constitute an important source of re-exports to India. Some of them have no direct access to the sea and can export and import the goods only with the help of the intervention of India and may, therefore, be regarded as a permanent channel for India's re-export trade. But the general economic backwardness and poverty of these countries, combined with their low standard of living and absence of well-organised transport and banking services, makes it rather difficult for India to develop rapidly the volume of re-export trade with these countries.

3. Mercantile Marine :—

Re-export trade is essentially distributional in its character and a country aspiring to be an important re-export centre in the world must possess a vast and an efficient mercantile marine. The indispensability of a merchant fleet for the carrying trade of a country has been well proved by the development of England and Holland, who, as a result of their vast merchant fleet, gradually occupied a supreme position in the carrying trade of the world. Unfortunately, however, India has no mercantile marine of her own and most of her carrying trade is dependent upon foreign ships. This is one of the greatest obstacles in the way of India's becoming an important intermediate port in world trade and the various aspects of the develop-

ment of the Indian Mercantile Marine will be examined in the next section on coastal trade.

4. Empire Outlets :—

Just as the prosperity of a country's exports depends upon the existence of a vast empire, the dependence also holds true in the case of re-exports. The mother country can collect the requirements of her empire-countries and can fulfill their requirements by proper distribution. India, however, has no empire outlets and her re-export trade is greatly handicapped in this respect.

5. Trade Organization :—

The existence of an efficient and wide-spread trade organization is essential for the development of the re-export trade. It is only with the help of such organization that a country can understand the various trends in the re-export markets, the changes in the tastes of consumers, etc. and can discharge more creditably her functions of an *entrepot* centre with greater benefit both to herself and the other countries concerned. In this respect India, however, is particularly unfortunate as she has no commercial organization of her own, with the result that the progress of her re-export trade is considerably hampered.

From ancient times India is recorded to have been an important re-export centre in international trade. In fact the re-export trade was an important feature of India's foreign trade in those times. We imported silk goods and porceline from China, pearls from Ceylon, for being re-exported to western countries; and woollen goods, Venitian glass etc., from the West to be re-exported to the eastern countries. Although

re-export trade forms a part of India's foreign trade even at present, it has undergone vast changes such as insignificant volume and value of trade, restriction of the trade within the British Empire, the control of the machinery of re-export trade by non-Indians, and lastly, the general neglect of the development of this valuable part of India's foreign trade.

ARTICLES OF RE-EXPORT

The most important item in the imports of foreign merchandise intended for re-export is cotton manufactures coming mostly from the U. K. The value of cotton manufactures re-exported from India in 1940-41 amounted to about Rs. 1.18 crores as compared with only Rs. 0.53 crores in the preceding year. The predominance of cotton manufactures is explained by the industrial backwardness of the countries absorbing India's re-exports. The most important article imported into India for being re-exported to the western countries is hides and skins whose value in 1941-42 amounted to Rs. 6.19 crores, as compared with Rs. 5.17 crores in the preceding year. Although these countries are still industrially backward, a tendency on their part to be independent of the foreign supplies of manufactures is noticeable in recent years from the increased amount of re-exports of machinery and mill-work from India to these countries. In 1940-41 the value of machinery and mill-work re-exports amounted to Rs. 0.32 crores as compared with Rs. 0.17 crores in the preceding year. In recent years the re-exports of sugar to our neighbours have been increasing enormously as also those of tobacco. Thus in 1941-42 the value of sugar re-exports amounted to Rs. 0.71 crores as compared

with only Rs. 0.17 crores in the preceding year. The re-exports of tobacco in 1941-42 were valued at Rs. 0.37 crores, as compared with only Rs. 0.02 crores in the preceding year. The re-exports of tea have been steadily mounting up and were valued at about Rs. 3 lakhs in 1941-42 as compared with only about Rs. 5,000 in the preceding year. The other important articles of re-exports are fruits and vegetables, rubber manufactures, hardware, raw wool and woollen manufactures, raw silk and silk manufactures, grain, pulse and flour, chemicals, drugs and medicines, textile fabrics and living animals, particularly horses. The re-exports of raw cotton from India to her surrounding countries are also increasing and this indicates the development of a cotton-mill industry within these countries. The re-export of raw cotton in 1941-42 rose to Rs. 36 lakhs from barely about Rs. 2 lakhs in 1936-37.

The volume of re-exports :—

The following table* gives the value of re-exports of India :—

(In crores of Rupees)

	1939-40	1940-41	1941-42	1942-43 †
I. Food drink and tobacco	0.82	0.55	1.84	1.63
II. Raw materials and produce and articles mainly unmanufactured	5.54	6.47	7.77	2.36
III. Articles wholly or mainly manufactured	3.25	4.76	5.70	2.96
IV. Living Animals	0.03	0.01	0.001	...
V. Postal Articles	0.02	0.02	0.02	0.004
Total Rs.	9.66	11.81	15.331	6.954

* *Monthly Account* for March 1942—page 12, 13.

† *Ibid* March 1943—page 10-11.

From the above table it is quite evident that the value of India's re-export trade is increasing rapidly. From Rs. 9.66 crores in 1939-40 it rose to Rs. 15,33 crores in 1941-42. The most noticeable rise is to be found in class (I) consisting of food, drink and tobacco whilst the re-exports of raw materials are also rising considerably.

Origin :—

The various countries participating in India's re-export trade are the U.K., the U.S.A., Japan, Germany, Ceylon, Aden and Dependencies, Iraq, Arabia, Iran, Kenya Colonies, Straits Settlements, Anglo-Egyptian Sudan and Burma. There has been a noteworthy change in the U.K.'s position in India's re-export trade as will be evident from the following table* :—

	U.K. %	U.S.A. %	Burma %	Japan %
1937-38	50	6	11	4
1938-39	43	6	17	4
1939-40	30	28	12	...
1940-41	2	51	16	...

From the above table it is interesting to note that while the U.K.'s share has declined from 50% in 1937-38 to the low level of only 2% in 1940-41, there has been a corresponding increase in the share of the U.S.A. from only 6% in 1937-38 to 51% in 1940-41. This may be explained by the virtual stoppage of Indo-British trade route after the outbreak of the present war, whilst the Indo-American trade route was open, until the Japanese occupation of Singapore and the Dutch East Indies last year.

* From the *Trade Reviews*. for 1937-38 to 1940-41.

Future :—

In the post-war period India's hinterland countries are likely to be actuated by the desire to eliminate the middlemen in their trade. Indian re-export trade is, therefore, likely to suffer in the post-war period. Those countries which have access to the sea may establish direct connections with foreign countries, whilst those which have no sea-outlets will, however, continue to depend largely upon India both for their exports and imports. But the character of the re-exports is likely to change considerably. The present tendency of these countries to conserve their raw materials within the country by industrialising themselves is likely to be intensified in the post-war years when they may import huge amounts of machinery and may, in course of time, replace the exports of raw materials by those of finished products. India should not, therefore, regard her re export trade as a permanent feature of her trade relationship with these countries in future years.

II. COASTAL TRADE

Coastal trade forms a very important part of the home trade of India. Including the value of exports and imports of Government treasure, the value of the total coastal trade of India amounted to Rs. 16,185 crores in 1935-36* which is about 40 times the total value of our foreign trade in normal times. The important articles of coastal trade are coal, cotton piece-goods, rice, timber, grain and pulse, tea, sugar, hardware, etc. The coastal trade is carried on mostly through the ports of Bombay, Calcutta and Rangoon. †

* *Statistical Abstract for British India* 1935-36—page 901 *Table 273.*

† For greater details see *The Annual Statement of the Sea Borne Trade of India* 1940 Vol. II Table No. 12.

The coastal trade of India is very largely in non-Indian hands. It has been estimated that the share of Indians in the coastal trade of the country is barely 13% which is considered to be very meagre as compared with the share of non-Indians. The reason why Indians do not participate in the coastal trade of India is that India does not possess an independent mercantile marine. Thus the problem of the development of our coastal trade is intimately connected with the development of our shipping. Recently, however, a ship-building yard has been built at Vizagapatam and the result of this new enterprise, inspite of the recent developments, may be expected to be considerably encouraging in the course of a few years. But until then, our coastal trade will continue to be subjected to great hardships by the foreign shipping concerns. It has been stated that the foreigners abuse their monopoly of Indian coastal trade by forming themselves into a shipping conference to the deteriment of Indian shippers in particular and the economic welfare of India in general. The Indian Fiscal Commission pointed out that the freight rates for coastal traffic were abnormally high as compared with those for foreign traffic. Another complaint against the non-Indian shipping companies has been that they adopt a 'deferred rebate system' in order to attract all coastal trade to themselves. The attitude of the Government towards the development of Indian shipping has also been criticised severely. It has been pointed out that, whilst the Government patronises the non-Indian shipping companies in regard to mail subsidies, carriage of Government stores, etc., no such patronage is extended to Indian shipping concerns. It is, therefore, proposed to consider

these various problems pertaining to our coastal trade in the following lines. The discussion may be conveniently divided under the following heads:—

(i) Reservation of Coastal Trade
(ii) Shipping Conference
(iii) Deferred Rebate System
(iv) Establishment of an Indian Mercantile Marine

(i) RESERVATION OF COASTAL TRADE

The reservation of coastal trade implies a monopoly granted to the ships of the country to carry on the trade betwen the various coastal ports. This may be regarded as one of the means by which the Government can offer indirect aid to the ship-building industry of the country.

The importance of coastal reservation is particularly great in those countries where there are extensive possibilities for the development of a Mercantile Marine, such as for example, plenty of raw materials, a long and suitable coast-line, a sea-faring population, an enormous traffic of goods from one port to another and inexhaustible fuel resources. On the contrary, if a country is not so placed, reservation of coastal traffic would be tantamount to a dog-in-the-manger policy and would impose considerable hardships upon the movement of goods from one port to another. Similarly, when foreign competition affords a healthy stimulus to the shipping industry and prevents the possibility of an undesirable national monopoly resulting in unreasonably high freight charges, coastal reservation would be detrimental to the consumers in the country as it would raise the prices of the goods.

The last world war revealed the importance of the development of a national mercantile marine and every maritime country in the world began to equip itself with this indispensable and powerful weapon in international trade. This can be very well illustrated from the development of the Japanese mercantile marine during the post-war period.

In India also there has been an insistent public demand for the development of an Indian Mercantile Marine. Most of India's foreign trade has been carried on by foreign ships, particularly British. This has been regarded as very unsatisfactory and detrimental to our economic life, particularly in view of the fact that India has all the requisites (such as huge forests, iron deposits, fuel resources, an extensive coast line) to enable her to become one of the greatest maritime nations in the world.

The problem of coastal reservation was examined fully by the Indian Mercantile Marine Committee appointed by Government in 1923 to investigate into the entire problem of the development of Indian shipping. The evidence of Sheth Walchand Hirachand before this Committee is very illuminating and the arguments he advanced in favour of coastal reservation for Indian shipping were as follows:—

Arguments for Reservation:—

1. That Indian shippers would be liberated from the harsh and humiliating treatment meted out to them by non-Indian ship-owners.

2. The rates of freight would cease to be exclusively favourable to non-Indian shippers and industries. Thus Indian industries would receive a great stimulus.

3. There will no more be a collusion between

the non-Indian ship-owners and the railway authorities to drive out Indian shipping.

4. The trade between small ports and the improvement of port facilities have considerably increased and this is indeed a favourable condition to make coastal reservation a success in India.

5. That the freight money instead of enriching foreigners will remain within the country itself and can be utilised for the national economic development.

6. Reservation of coastal traffic will lead to the general development of Indian shipping and will thus provide new careers to Indian youths.

Arguments against Reservation :—

The representatives of the foreign shipping interests in India who did not much relish the idea of coastal reservation in India as it would have meant a great financial loss to them, put forth the following arguments against such reservation :—

1. It would result in a shipping monopoly and thus increased coastal freights.

2. It would give rise to undesirably bitter racial feelings.

3. It would amount to expropriation; but this was answered by the argument that the coastal trade did not rightly belong to foreign companies and they had themselves expropriated it!

4. It would result in unfavourable reaction on Indians abroad.

5. It would result in the breach of international agreements if Goa and Pondicherry were included in the scheme of reservation.

6. India is not so favourably placed as is generally supposed to become a great maritime nation—

e. g. lack of raw materials, skilled labour, shipping experience and enterprise.

Although it is true that the development of shipping of every country in the world is explained by coastal reservation, the Government of India have not yet found it convenient to adopt a similar policy for India, probably because of its inevitable solicitude for the British shipping interests in India. The Indian Mercantile Marine Committee recommended a system of reservation of coastal traffic based upon licences or permits which were to be given only to a company registered in India with Rupee capital, and managed predominantly by Indians and a majority of whose shareholders are Indians.

MR. HAJI'S BILL FOR COASTAL RESERVATION FOR INDIAN SHIPPING

As Government did not show any readiness to take action on this recommendation, Mr. Haji of Messrs. Scindia Steam Navigation Company introduced in the Central Assembly a bill for gradual reservation for coastal traffic for Indian ships. But no agreement was reached on the point as it was regarded as a part of the broader problem of discriminatory legislation in India.

The question of discriminatory legislation has finally been settled by the Government of India Act 1935, according to which any discriminatory legislation against British Shipping Companies has been forbidden.

(ii) SHIPPING CONFERENCE

Another peculiar feature of the coastal trade of

* This section is based on Mr. Haji's *Economics of Shipping* to which a reference may be made for further information.

India is the shipping 'Ring' or 'Conference' which is a combination, more or less close, of shipping companies formed for the purpose of regulating or restricting competition in the carrying trade on a given trade route or routes. The operations of a shipping conference are confined to a particular trade route, that is to say, the engagements which the various shipping companies enter into with one another only apply to the trade within certain definite areas or between specific ports. A steamship company may be a member of several conferences, but its engagements in one are independent of those in any other. The alliance of a shipping conference is not one of steamship companies for all purposes, but only as to their operations. The shipping conferences may also relate to certain specified articles of export e. g. the U. K. to India Conference for cotton and woollen goods, the Indian Home-ward Conference.

General Features :—

The general features of a shipping conference are pooling of freight money, the allotment of carrying rates, agreement as to rates of freight and non-interference with each others' legitimate spheres of operation. The object of pooling freight is to ensure the honesty of the conference members as regards the carrying rate. If any conference line carries freight in excess of its allotted rate, it does not stand to gain because the freight money has to be pooled and shared with other shipping companies under the Conference Agreement.

Internal Organization :—

The internal organization of a shipping Conference

depends mainly upon the nature of the agreement between the members. Where a shipping Conference merely means, as on the Indian coast, an occasional consultation, generally by correspondence, when any rate changes are contemplated, it is unnecessary to maintain any definite organization. A lower from of organisation is seen when a weaker member is content to follow the rates established by the predominant partner in the Conference; a higher form is represented by the informal meetings; regular or intermittent, at which, rates, sailings and other matter of mutual interest are arranged, as in the Calcutta Home-ward Conference. But the shipping Conference are sometimes formal organizations with a separate office manned with permanent officers and working through committees, regular meetings, rules, penalties etc. This highly evolved type of a shipping conference organization was represented by the Mediterranean Shipping Conference of British, Italian and German shipping companies, before the present war.

Advantages :—

1. It ensures regular sailing by increasing the number of ships; but the history of mechanical and other inventions which increase the efficiency of steam navigation shows that they were the causes and not the results of the establishment of the Shipping Conferences. Even the most zealous supporters of the shipping Conference are unable to show that regular sailings were unknown before the shipping Conferences were organized. To prove the hollowness of this argument, one has to examine American shipping, which has not suffered at all from a paucity of tonnage, inspite of the fact that shipping Conferences,

like all other forms of combinations, are declared illegal by the American Government. Strange as it may seem at first sight, the existence of the shipping Conference actually results in available tonnage being reduced as new competing lines are not allowed to be started owing to the supreme monopoly of the Conference. As to regularity, even, the services provided by the Conferences are very regular only when they are bound by mail contracts or otherwise it implies regularity only between large ports at the cost of the small ones.

2. Stable Rates of Freight :—

It is sometimes pointed out that the main advantage of the conference system is that it enables stable rates of freight to be maintained. Although stability of freight rates is a great convenience to merchants who can thereby anticipate their profits; stability may also impose a hardship upon the shippers, e. g. in times of economic depression when there is abundance of tonnage to lift the small quantities of commodities and the freight rates instead of falling according to the law of supply and demand are maintained at an economically high level as a result of the conference. Moreover, it should be remembered that the stability of freights is desired more by the ship-owners than by the shippers to safeguard their own profits.

3. Elimination of competition :—

Although it is true that the shipping Conference makes it impossible for shipping companies to compete with one another, it confers no advantage upon the shippers. On the other hand, it has been a matter of common experience, that the shipping Conferences

ultimately operate as a monopolistic combination, not only to the detriment of the shippers, but also of the shipping enterprise in general Complaints from shippers have frequently been heard about the indifference and the tyranny of these Conferences which exploit their resulting monopoly to restrict the freedom and facilities to shippers. They tie down the shippers by unfair means such as the deferred rebate system. Furthermore, the ship.owners in a shipping Conference render it difficult for any other ship-owner to start a new service and, thereby, discourage any further enterprise in the shipping industry of the country. The shipping Conferences not only operate as a monopoly but sometimes they are themselves responsible for the creation of other monopolies which restrict the scope of business, e.g. in 1908 there was a *Baps Ring* (Bullocks, Arakan, Pandorf, Steels Cos.) in the Rangoon rice trade to Liverpool and London which was supported by a shipping Conference of British steamship agents.

4. Provision of high class steamers :—

It is no doubt true that the ships run by the Conferences are as a rule high class vessels with good speed. But the inference is unjustifiable that a shipping Conference is an essential condition for the provision of high class steamers e.g. along the Atlantic route first-class vessels are provided even though there is no shipping Conference in existence.

5. Uniform rates of freight :—

It is claimed that under the conference system, ship-owners are enabled to charge the same rates to all shippers, whether large or small. In other words, it claimed that the system of shipping Conferences

enables them to protect the small merchants from their more wealthy competitors. This advantage is common to all trades and not peculiar to shipping industry. Although to a large extent it is true that a shipping Conference does not differentiate between large and small shippers, it would be incorrect to infer that there cannot be an equal treatment of all shippers in matters of freight if the shipping Conference did not exist, e.g. before the shipping Conference in India, there were equal rates for all shippers. Furthermore, the uniformity claimed as an advantage has not always been maintained. The Conference lines give preference to Governments, railways, and municipalities although the members quote identical rates in their tenders. In the coastal rice trade of Burma, preference is shown to large shippers in respect of rates of rebate, period of payment and facility of shipment. Special terms are also given for huge quantities or 'contract quantities', the amount of which is left to the discretion of the managers. It is, therefore, incorrect to say that shipping conferences necessarily lead to a uniformity of rates.

6. Economy in the cost of service :—

It is sometimes claimed that a shipping Conference makes it possible to effect economy in the cost of their operation; but an examination of facts will reveal the unsound character of this argument. The Conference system is economically injurious because it provides an unnecessarily high class of steamers, the cost of which the unfortunate merchants have to bear, and also because it attempts to drive out of existence the 'tramp' steamers which form a very large percentage of the tonnage of the world. Further, the

Conference lines maintain an unduly large fleet of steamers even in times of depression.

The above mentioned advantages, it should be remembered, are all in the nature of voluntary gifts by the shipping Conference and not given by them under any contract enforcible at law, so that any or all of them may be withheld without the shippers having any legal redress. Moreover, the evil effects of the conference system upon the development of Indian shipping have been many and have lasted long. The system is responsible for the practical non-existence of a national mercantile marine. In a country so eminently fitted for it; for the divergence of trades from their natural sea ports to others more suited to the needs of the Conference; and for developing Indian commerce along lines calculated to benefit countries other than India.

(iii) DEFERRED REBATE SYSTEM

This is an important aspect of the coastal trade of India. The deferred rebate system has been explained by Mr. Haji* in the following words: "the shipping companies issue a notice or circular to shippers informing them that if at the end of a certain period, (usually 4 or 6 months), they have not shipped goods by any vessel other than that dispatched by members of the Conference, they will be credited with a sum equivalent to a certain part (usually 10 per cent) of the aggregate freight paid on their shipment during that period, and that this sum will be paid over to them if at the end of a further period (usually 4 or 6 months) they have continued to confine their shipments to vessels belonging to members of the Confer-

* S. N. Haji - *Economics of Shipping.*

ence. The sum so paid is known as a deferred rebate." This system of deferred rebates is acting very unfairly upon the Indian shipping companies and is even threatening their very existence. The shipping companies point out that this system is an indirect protection to Indian shipping companies, as it makes it difficult for new competitors to enter the field and further that it ensures regular service, stability of freights and equality between large and small shippers. This, however, does not appear to be quite convincing and the final judgment upon the system should be passed exclusively with reference to its effects upon Indian shipping interests. In this connection, the Fiscal Commission recommended that legislative measures should be taken to abolish this system. A bill to this effect known as the *Deferred Rebates Abolition Bill* was introduced by Mr. Haji in Central Assembly in 1929. The bill unfortunately could not reach the final stage.

(iv) INDIAN MERCANTILE MARINE

The problem of the establishment of mercantile marine in India was examined in details by the Indian Mercantile Marine Committee in 1923. The Committee recommended the establishment of a training ship, reservation of coastal traffic by a scheme of licenses, navigation and construction bounties to Indian shipping companies, and Government patronage to Indian shipping companies in regard to mail contracts and government stores traffic. The committee also proposed that Government should buy over one of the existing British shipping companies and operate it with a view to its ultimate transference of its ownership to Indians. Furthermore, the Committee suggested that

Government should extend help to the construction of a ship-building yard by an Indian shipping company. The government action on these recommendations has been restricted to the establishment of a 'dufferin' ship to train cadets in Bombay. Recently the Scindia Steam Navigation Co. constructed a ship-building yard at Vizagapatam.

III. TRANS-FRONTIER TRADE

Although India has an extensive land frontier of about 6,000 miles, the volume of her land-frontier trade is very insignificant; forming only 5% of her sea-borne trade. This is mainly due to the impenetrable forests and inaccessible mountains that line India's northern borders. The absence of communications and low, convenient, mountain-passes have also made it difficult to develop this trade. The important countries that participate in India's land frontier trade are Persia, Afghanistan, Iran, Iraq, the Shan States, Tibet, Western China, Central Asia, and Siam. All these countries are rich in natural resources of immense potentialities. The land frontier trade is recorded only in quantity and not in value. The inefficiency and inaccuracy of the satistical records of Indian trans-frontier trade have been the subject of severe criticism. The existing system of registration of the frontier trade of India falls under two classes: (1) Trade at Railway Stations adjascent to the more important land frontier trade routes and (2) Indo-Afghan Trade. The articles of land frontier trade are, *Imports*: wheat, gram and pulses, fruits, vegetables, nuts, rice, hides and skins, tobacco, raw wool, raw jute, linseed, mustard and rape seed (from Nepal) *Exports*: cotton piecegoods (foreign), dyes, machinery

and mill work, hardware and cutlery, petroleum (Indian), wheat, husked rice, salt, sugar, tea and tobacco. The general characteristic of the above trade is the predominance of raw materials and food-stuffs in imports and of manufactured articles in exports. The development of our frontier trade is greatly handicapped by the absence of adequate communications. The existing means of communication are designed for strategic and military purposes and do not serve whole-heartedly the needs of our trans-frontier trade. The development of our trans-frontier communications is a matter of very great urgent need. The total quantity of the imports across the frontier was 36 lakh maunds and that of exports was 57 lakh maunds in 1940-41.

(i) INDO-AFGHAN TRADE

Separate statistics of trade between India and Afghanistan are available since 1931 and are registered at Thal, Chaman and Torkham. One of the principal features of this Indo-Afghanistan trade is the existence of a large volume of transit trade through India. The aggregate value of Indo-Afghanistan trade including transit trade amounted to Rs. 895 lakhs in 1940-41 as compared with Rs. 666 lakhs in the preceding year. The chief articles of imports from Afghanistan are fruits, nuts, vegetables, skins and furs (all of which form about 85% of the total imports) living animals, spices, raw cotton, raw wool, carpets and asafoetida. Almost the entire quantity of skins and furs is exported to foreign countries and a large portion of the fruits and nuts imported are ultimately sent to foreign countries. The chief articles of exports are living animals, boots and shoes, cement, instru-

ments and apparatus, leather, machinery and mill-work, rubber manufactures, sugar, tea, cotton and silk manufactures. In the case of exports to Afghanistan, foreign goods in transit account for more than half of the total exports. The routes along which the trade with Afghanistan is carried on are mainly:—(1) The Northern and Eastern route passing through the North-West Frontier Province, the Punjab and Kashmir and (2) Southern and Western routes via Kandahar and Quetta.

Just before the outbreak of the present war, the Afghan Government pursued a trade policy of racial discrimination under which State monopolies of trading in certain commodities e. g. cement, sugar, petroleum, motor vehicles, etc. were granted to syndicates of Afghan merchants and thus Indian traders in Afghanistan were placed at a great disadvantage. Furthermore, Indian goods were subjected to a minimum duty of 35%. The Government of India declared its intention of adopting retaliatory measures and this persuaded the Afghanistan Government to take a more compromising and practical view of their trade relations with this country.

There is a great likelihood that Indian merchants in Afghanistan will be handicapped by legal and other hardships in course of time and Indo-Afghan trade relationships may be adversely affected. As Afghanistan has no direct access to the sea, it will be forced to depend entirely upon India for her foreign trade in the years following the war. If the present aggressively nationalist policy of the Afghanistan Government, combined with its desire to industrialise itself, is continued in the post-war period, this might have important repercussions on our trade

with that country. Moreover, the increasing imports by Afghanistan of machinery and millwork, raw cotton, cotton twists and yarn, give an indication of the desire of that country to conserve her raw materials within the country and if this policy is continued in future, this might change the nature of the Indo-Afghanistan Trade.

Recently the Afghan Government passed an Exchange Control Order which has affected Indian trade with that country particularly in cotton piecegoods, boots and shoes, grains and pulses, sugar, black tea and iron and steel manufactures.* The total balance of trade across the Indo-Afghan frontier dwindled from about Rs. 154 lakhs in 1937-38 to Rs. 34 lakhs in 1938-39. India's share in Afghan's imports also declined heavily as a result of the severe Japanese competition and also the policy of State monopolies pursued by the Afghan Government. India's exports of dyes to Afghanistan have also decreased as the result of the Government prohibition of the imports of dyes which are not fast with a view to encouraging the production of carpets with fast colour. The cotton textiles have recorded the highest drop both in regard to quantity and value and this indicates the desire of Afghan Government to become independent of foreign supplies of this commodity as a part of the general policy of economic nationalism. Indian exports of vegetable oil and woollen goods to Afghanistan have also recorded a fall as a result of the development of Afghan oil and wool manufacturing industries.†

Future :—

The Afghan Government is driving gradually

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* See the *Annual Report of the Trade Agent in Kabul* for 1938-39.

† *Capitol* 6th June 1940—page 815.

towards the attainment of economic self-sufficiency and intense industrialisation. This is likely to affect adversely India's exports of manufactures to Afghanistan, indications of which are already in evidence. There is a great scope for Indian sugar in Afghanistan which is at present supplied by Russia and Java. But difficulties in this connection are, the lower cost of production in Java and the monopoly of the Afghan Sugar Syndicate which controls the price of sugar in Afghanistan. There are also very good prospects for Indian tea particularly in view of its cheapness and the cessation of imports from China and Japan. The increasing building activity in Afghanistan have given a considerable fillip to exports of cement and building materials from India to Afghanistan. Indian cigarettes are being sent in increasing quantities to Afghanistan and in future are likely to maintain the increase, as the habit of smoking spreads in that country. Although India still occupies a leading position as supplier of leather, the future does not seem to be promising in view of the recent steps taken by the Afghan Government to develop an indigenous leather tanning industry.

Indian industries can look forward to capturing the Afghan market particularly in view of the fact that supplies to Afghanistan from the U. S. A., Japan and Russia have ceased as a result of the present war. As a result of the war India has become the leading supplier of goods to Afghanistan with the gradual disappearance of Japan from the Afghan market. The exports from India of cotton textiles, silk manufactures, boots and shoes, cement, paper, hardware and tea are increasing steadily.

There was recently a considerable amount of anxiety in the Indian business community owing to the unwarranted restrictions imposed upon Indian traders by Afghan Government. But the recent statement made in the Council of State by the Leader of the House, the Hon'ble Sir Mahomed Usman on behalf of the Government of India has considerably allayed the initial fears. He stated that the restrictions were directed at all foreigners in Afghanistan and not particularly Indians and further that the Government of India was fully aware of its responsibility to safeguard the interests of Indian traders in Afghanistan.

(ii) INDO-PERSIAN TRADE

The value of Indo-Persian trade amounts to about: Exports - Rs. 35 lakhs, Imports - Rs. 208 lakhs, Re-exports - Rs. 12 lakhs. Thus India has an unfavourable balance of trade with Persia. The chief articles of exports are cotton manufactures, cotton yarn, tea and rice, whilst the imports consist of mineral oil, wool, carpets, dried fruits, etc. The trade with Persia is carried along two routes. (1) Sea route from India to Bunderabbas, Bushire, and Bundershahpur and (2) the land route, which is not so important, mainly along the Quetta-Duzdab railway. Persia is an industrially backward country and there is a great scope for Indian manufactures in that country. To achieve this purpose, every effort should be made to develop trans-frontier communications, the overwhelming importance of which has been emphasised by Prof. K. T. Shah in the following words: "For, here is an instance where the ordinary rule may be said to be reserved. It is not the existing trade which demands ampler communications, but

rather, it would be the better communication that would bring about larger trade."*

The war has considerably influenced our trade with Persia who is attaining greater and greater importance filling up the gap created by the stoppage of petroleum imports from Burma. Recently a trade mission was sent to Persia to explore the various avenues of developing Indian trade with Persia which is holding out great promise in this regard. The recent annual report of Mr. Ismail, the Indian Trade Commissioner at Alexandria, sets forth the various channels of developing Indo-Persian trade.

* See Prof. K. T. Shah—*Trade. Tariffs and Transport*—page 107.

CHAPTER IX

MERCANTILE HOUSES IN INDIA

MERCANTILE Houses in India play a very important part in her foreign trade. They are concerned with bringing together Indian merchants and foreign merchants in order that trade relationships might be established between them. The mercantile houses generally take the form of Indent Firms which receive indents from Indian merchants and pass them on to the foreign manufacturers. The indent firm may be either an export or an import firm; but generally both these are combined in one firm. They carry on business either on their own account or on account of the foreign manufacturers. More often they act as commission agents and receive commission on the transaction. The existence of these mercantile houses in India is explained by the fact that the Indian importer is ignorant of the manufacturers in foreign countries or sometimes his financial standing is not widely known, with the result that the foreign manufacturers are not prepared to give him credit without the intervention of the indent firm. Moreover, the Indian exporters are ignorant of the business conditions in foreign markets. They have, therefore, to obtain the assistance of these firms in this matter. These firms give every type of business

information possible and thus facilitate the work of the buyers and sellers both in India and foreign countries. They have connections almost all over the world and this enables them to give sound business advice to their clients. Most of these mercantile houses are non-Indian, with a predominance of British firms which is the result not only of historical evolution but also of the enormous amount of trade which is carried on between India and England.

METHODS OF BUSINESS

Generally these mercantile houses get in touch with the local dealers either by requiring them to come to their offices or by sending their salesmen to them. Samples of goods are examined by the firms or the merchants as the case may be and an indent form is sent to the foreign manufacturer duly signed by the Indian importer and giving full particulars regarding the goods. The goods are sent on a commission, contract or a consignment basis. When the goods arrive here, the importer is informed about this ands is asked to take immediate delivery.

In India the mercantile houses belong to various nationalities and their methods of business also differ greatly from one another. The British mercantile houses, for example, are regarded as rather conservative and are stated to distribute goods in a manner which disregards the peculiarity of the Indian market and the tastes of Indian consumers. They feel that good quality is a sufficient passport to marketability and fail to appreciate that the Indian market is essentially a price market, in which consumers purchase commodities more with reference to their income than to the quality of the goods. Recently, however,

these firms have been compelled under competition from other firms to take a greater interest in such matters of business as advertisement, canvassing, salesmanship and have adopted a more compromising attitude to meet the requirements of the Indian consumer. The general grievance of Indian merchants against these firms is that they give their quotations invariably in sterling and not in rupees so that the Indian purchaser, being more familiar with his own currency, does not obtain an adequate idea of the value of the goods. In regard to the period of credit also, it has been reported that these firms do not show any consideration to the Indian merchant under extraordinary circumstances when he may be unable to meet his liabilities in regard to the goods purchased through them. The business of the British mercantile houses is considerably assisted by the existence of the British foreign exchange banks, British insurance companies and British steamship companies in India. On the other hand the German and Japanese mercantile houses, before the present war, were supposed to present a striking contrast to the British firms in regard to the methods of their business. "Cheapness. good business organization and pushful marketing and financial methods constitute Germany's great 'pull' in the Indian market."* They used to send out commercial travellers all over India to study the psychology, sentiments and requirements of the Indian consumers. They often quoted c.i.f. prices and their quotations were generally in local currency and this was found by Indian merchants to be a great convenience to them. Furthermore, they granted extensions of the period of credit and

* Vera Anstey—*The Trade of the Indian Ocean*—page 75.

showed considerable laxity in the matter of receiving payments. They spent enormous amounts in publicity and pushed their manufactures into the Indian market by many devices, such as the distribution of free sample, etc. They used to supply cheap goods in recognition of the economic condition, within the country and this had succeeded in capturing the Indian market to a very large extent. The Japanese firms were interested particularly in the purchase of Indian raw cotton for their textile mills. The German and the Japanese firms adopted all sorts of methods to capture the Indian market such as the dispatch of trade mission periodically to this country and the exploitation of the religious and patriotic sentiments of Indians. At present, however, these firms have ceased to operate because they have been declared as enemy firms after the outbreak of the war and their affairs are now being managed by the Controller of Enemy Property appointed by the Government of India.

INDIA :—

The great importance of the existence of mercantile houses in the development of the country's foreign trade need hardly be emphasised. The need is particularly great in India to enable her merchants to obtain better prices and to widen their existing market in the world and also to explore new avenues of distributing Indian manufactures in the world market. The existing Indian mercantile houses do not have as many foreign branches as would be justified by the enormous volume of India's foreign trade. Some of the difficulties in this regard are the absence of Indian exchange banks, Indian steamship companies, and Indian insurance

companies in the important trade centres of the world. The only places where our mercantile houses have extended their activities are Singapore, Burma, Ceylon, South Africa and Aden. These firms are mainly engaged in the export of Indian cotton goods to these various countries and also imports of sugar and other commodities from the Dutch East Indies. But their methods of business are regarded to be crude and unscientific as a result of which they are unable to stand up against the severe competition of the non-Indian mercantile houses in India.

The problem of stimulating our foreign trade is a problem of great significance to our economic life. Every effort should, therefore, be made to see that the activities of Indian businessmen are spread far and wide and that Indian manufactures are sent to the remotest parts of the world. The forces which individual efforts in this direction will have to face are so powerful that this can be the work of only an organised and collective body of Indian businessmen such as the Indian Merchants' Chamber. It may, therefore, be suggested that the Chamber should explore all possibilities of enabling Indian mercantile houses to open foreign branches in the important commercial and financial centres of the world. It is not possible in this work to give a detailed scheme but the work can best be done by a committee of the Chamber specially appointed for the purpose.

CHAPTER X

TECHNIQUE OF TRADE

I. TECHNIQUE OF EXPORT

EVERY businessman must be thoroughly conversant with the technique pertaining to the movement of goods. It is, therefore, proposed to study the various stages through which goods, intended for export, have to go before being loaded into the steamer for being exported to foreign countries. The study will be considerably facilitated by choosing a particular commodity like cotton.

FROM THE FIELD TO THE PORT-TOWN

The farmer collects the raw cotton, puts it into gunny cloth and brings it to the nearest market. In this market there are the arhatiyas and other types of agents of the important cotton firms of Bombay. These agents are in constant communication with their principals and purchase the cotton according to their instructions. In normal times the raw cotton may be purchased for spot delivery or future delivery.

After having purchased the required quantity of raw cotton, the agent sends it to the ginning factory where the seeds are separated from the actual cotton by mechanical or other devices. The important points to be noted in regard to the ginning of cotton

in India are the mixing of seed of different qualities, imperfect processing, great amount of impurities, etc. After the cotton is thus ginned, it is taken to the pressing factory where it is pressed under hydraulic pressure into bales of uniform size and weight. Some of the malpractices associated with the pressing of cotton in India are watering of cotton to increase weight, putting stones at the core of the bales, etc. The bales are then taken to the railway station, where the necessary arrangements are made for the reservation of railway waggons for transporting the cotton bales to the port-towns. The agent after paying the railway freight obtains the Railway Receipt which he passes on to his principals in Bombay and simultaneously sends them telegraphic advice regarding the despatch of the cotton bales. As soon as the advice is received, the firm in Bombay gets busy in clearing the bales from Wadi Bunder or Carnac Bunder, as the case may be, and stores them in its godowns. The clearing of the goods may also be entrusted to Muccadams or Clearing and Forwarding Agents.

SECURING FREIGHT

The exporter must now obtain space in the steamer from the steamship company concerned. He can do this by going personally to the company's office or entrust the whole business to freight broker who is in constant touch with the steamship company and is thoroughly acquainted with the situation in the freight market. The freight broker wields greater influence with the steamship company and his services are particularly valuable in abnormal circumstances such as those of war when there is an acute shortage of tonnage and restricted allotment of

space to the various merchants. The freight broker obtains the shipping order and passes it on to the exporter who then gets busy with the passing of customs documents pertaining to the balance of cotton lying in his custody.

CUSTOM HOUSE PROCEDURE

The exporter has to fill in a Shipping Bill in triplicate along with an Application to Export* to the Export Department of the Custom House. There are three types of Shipping Bills: (1) for free goods (2) for dutiable goods and (3) for dutiable goods assessable on tariff value. One section of the Export Department examines the names and addresses of the consignees on the Shipping Bills, (this has been made necessary since the outbreak of the present war) after which it is sent to the War Section which is a department newly opened by Government after the outbreak of the present war to control the foreign trade of our country. Here the Application for Export is carefully examined and finally signed by the Export Trade Controller. After this the Shipping Bill is brought back to the Export Department where it is serially numbered by the export clerk and a 'let export order' is given by the Superintendent of the export department by affixing his signature on behalf of the Assistant Collector of Customs, Export Department. If, however, the goods are liable to export duty, then the Shipping Bill is sent to the 'Appraising Department', where the amount of duty is verified by the Appraisers. There are different Appraisers for different groups of commodities. The payment of

* This has been made necessary under Government orders after the outbreak of the present war.

duty may be made in cash at the counter of the Cash Department or may be adjusted in the deposit accounts which the important firms of exporters generally maintain with the Assistant Collector of Customs for purposes of convenience. The adjustment of duty by book entries is made in the Accounts Department of the Custom House and, in evidence of this, the Accountant signs the Shipping Bill and returns it to the exporter. The Custom House has a part of its Export Department and allotted to the staff of the Bombay Chamber of Commerce which is entrusted with the collection of trade satistics and of measurement fee relating to the cargo measured by the Bombay Chamber in the Port Trust sheds. After all these formalities are over, the shipping bill may be regarded as 'passed' by the Custom House.

CARTING PERMISSION

The Shipping Bill must then be taken to the Manager of that particular shed where the steamer is loading the cargo. The allotment of berths to the steamers is made by the Port Trust authorities and this information may be obtained from the steamship agent. The 'passed' shipping bill has then to be presented before the Shed Manager who grants the necessary permission to cart the goods inside the docks by putting his signature on the reverse of the Bill. This is known as the carting Permission. After the carting permission is thus obtained, the exporter has to come back to his godown and make sure that the bales are properly marked and numbered. The next task is to transport these cotton bales to the Port Trust docks. This may be entrusted to a carting contractor or may be undertaken by the exporter himself.

Great care has to be exercised while loading the bales into the cart and unloading them on the wharf in order to ensure an accurate enumeration of the bales. There is a gate to every dock and every time the cart loaded with the cotton bales passes the gate, it has to present the shipping bill to the gate-keeper who notes thereon the number of bales brought into the dock. The cotton bales are then systematically stacked in bulk inside the shed.

MEASUREMENT

The cotton bales have now to be measured in order to facilitate the calculation of freight. The Bombay Chamber of commerce and recently the Indian Merchants' Chamber have been appointed Measurers to measure the export cargo inside the docks. The measurement of the bales consists in finding their length, breadth and depth in order to find out how much cubic space they will occupy on board the steamer. The staff of the Bombay Chamber of Commerce, issue a Measurement-Certificate duly initialled giving the length, breadth and depth of a few bales from the entire consignment. It is not customary to measure all the bales but to choose a few (generally 10%) out of them and give their measurement which is taken as representative of all the other bales.

CUSTOM'S EXAMINATION

The Custom House has appointed Examiners who sit in the port-trust sheds and call upon the exporter to break open a few of the packages from his consignments in order to ensure that the contents of the packages are identical with the shippers' declaration on the shipping bill. In our example, all the bales are not

opened but a few representative ones are chosen by the Examiner himself. The work of the Examiner is very responsible and the Examiner must be thoroughly conversant with the different varieties of the cargo. After the bales are examined and certified as passed, the Examiner notes the fact on the shipping bill. Now the bales are ready for being loaded into the steamer.

LOADING

The bales have to be loaded by cranes into the steamer under the joint supervision of the shed manager, the stevedore, the Customs Preventive Officer and the Chief Officer of the ship. The loading of cargo may be done either by Port Trust cranes, ship's winches or by coolies. An accurate tally of the number of bales loaded every time into the ship is maintained by all the above officers and particularly by the stevedores or by tally-clerks on board the steamship. There are two methods of tallying the number of packages loaded: (1) The stick method, under which a small stick is surrendered to the tally-clerks by the coolies for every definite number of bales carried into the steamer, and (2) Mark method under which a vertical mark is put on the tally sheet for every particular number of bales loaded into the steamer.

MATES'S RECEIPT

At convenient stages of the loading, the Chief Officer signs a receipt known as the Mate's Receipt on behalf of the Captain of the ship and hands it over to the exporter. The Mate's Receipt in thus a written acknowledgment of the receipt of the goods on board the steamer given by the Captain. The exporter must satisfy himself that the total number of

bales on the Mate's Receipt tallies with the actual number of bales exported by him.

BILL OF LADING

With the Mate's Receipt, the exporter has to come back to the steamship company's office in order to get the Mate's Receipt exchanged for the Bill of Lading duly signed by the company. He must first purchase a bill of lading 'set' from the company, consisting of generally three stamped and 6 to 8 unstamped bills of lading. The stamped bills of lading only are signed by the company and returned to the exporter. The bill of lading may be either 'clean' in which case there are no remarks upon it, or may be 'foul' in which case some remarks pertaining to the bales are put, e. g. 'bales burst and repaired,' 'hoops rusty,' 'ship is not responsible for loss and/or damage of contents,' etc.

DELIVERY TELEGRAM

If the shipment is undertaken without the intervention of a bank, the shipper has himself to send the signed Bill of Lading to the consignor either by sea or by airmail. Sometimes, however, shippers arrange with the steamship agent to send delivery telegrams, one to the Consignee and the other to their Agents at the port of destination instructing them to give delivery of the cargo to the consignors mentioned therein.

MARINE INSURANCE

After having obtained the bill of lading, the merchant must insure the bales through an insurance company. This may be entrusted to the insurance broker or may be done by the exporter himself. The

insurance company examines the bill of lading and after satisfying itself as regards the genuineness and other particulars of the shipment, issues a 'Marine Insurance Policy' in acknowledgement of its responsibility for any damage and/or loss of goods from the perils of the sea.

CONSULAR INVOICE

If the bales of cotton are intended for any American port, then the exporter must obtain a Consular Invoice from the American Consul in Bombay, fill it in properly and get it signed by the American Consul who charges a certain amount of Consular Fee to the exporter. The object of the consular invoice is to ensure the non-export of undesirable cargo to the U.S.A. The exporter must also sign a "'Declaration' of Food and Drug Products", stating that the cargo does not contain any undesirable substance such as animal fat, etc.

CERTIFICATE OF ORIGIN

The exporter must now obtain a 'Certificate of Origin' form supplied by the Bombay Chamber of Commerce, fill in the necessary particulars and get it duly signed by them. The certificate of origin contains a declaration by the exporter as regards the original place where the goods have been produced.

BILL OF EXCHANGE

With the bill of lading, insurance policy, cousular invoice and the certificate of origin, the exporter must return to his office and fill in a 'Bill of Exchange' for the value of the goods drawn on the importer in the foreign country.

INVOICE

The merchant must now type out his own invoice relating to the bales, giving full details about the bales, e. g., quantity, quality, weight, measurement, value, tare, discount, etc.

DISCOUNTING

The businessman must now go to the bank through whom credit has been opened by the foreign importer in his favour with the following documents :—

1. Bill of Exchange
2. Bill of Lading
3. Copy of Letter of Credit
4. Invoice
5. Marine Insurance Policy
6. Consular Invoice
7. Certificate of Origin

The clerk in charge of the Outward Bills Department carefully examines these documents and satisfies himself that they fulfill the conditions mentioned in the letter of Credit. He also makes sure that the period of credit has not expired. Then the bill of exchange is discounted by the bank and the amount is paid to the exporter who surrenders all the above documents to it.

LETTER OF HYPOTHECATION

The bank also calls upon the exporter to sign a Letter of Hypothecation before discounting the bill of exchange. This document gives the bank a lien on the goods until all its charges are paid. If, however, the importer subsequently turns out insolvent and fails to meet his bill of exchange, the bank, by virtue of this document, is entitled to sell the goods by auction

and recover the difference from the exporter. The bank insists upon this Letter of Hypothecation in order to safeguard its position under extraordinary circumstances.

CABLE ADVICE

After having discounted the bill, the exporter must immediately inform the foreign importer by cable about the shipment of goods. There are different types of cables having different degrees of transmission-speeds, e. g. N. L. T., D. L. T. cables etc. The exporter must also send a copy of the Bill of Lading with an enclosing letter by air or sea mail to the foreign importer.

SHORT-SHIPMENT

Very often it happens that a few packages from the entire consignment are not loaded into the steamer for many reasons, e. g., a few bales get burst and cannot be again packed, delay in carting etc. In such cases, the exporter must immediately inform the Custom House of the short-shipped bales and recover from them duty, if any, paid previously on these bales.

II. TECHNIQUE OF IMPORT

Whenever an Indian merchant imports goods from foreign countries, he receives intimation of the export by cable and a letter along with a copy of the first bill of lading from the foreign exporter. He must find out the name of the local agents of the steamer, carrying his goods from the foreign country to his own port. He must keep in constant touch with these agents and make enquiries as to when the steamer is expected at his port. Most of the steamship companies adopt the practice of sending out printed notifi-

cations to consignees of the arrival of the steamer and request them to take immediate delivery of their cargo. They also insert a public notice to the consignees in the daily newspapers informing them about the arrival of their cargo. After receiving this information the importer must find out from the steamship agent the dock and the number of shed allotted by the Bombay Port Trust to the steamer for discharging her cargo.

DELIVERY ORDER

The importer must go to the shipping agent's office with the bill of Lading and obtain a delivery order against the bill of lading duly endorsed by him. Sometimes it happens that the importer does not receive the bill of lading in time and if he waits till the receipt of the bill of lading, his goods may lie in the docks and he may have to incur heavy wharfage and demurrage. To avoid this, the importer, in the absence of the bill of lading, can obtain a delivery order from the steamship agent against a stamped 'Letter of Guarantee' given to the steamship agent agreeing to hold the agent, the ship, its owners or charterers harmless and himself, his heirs and successors responsible for all consequences arising from such delivery without the production of the bill of lading. He has also to state that he is the lawful owner of the goods and no other party has claim upon them. This Letter of Guarantee is duly cancelled and returned subsequently to the importer against the production of the relative bill of lading.

OVERSIDE DELIVERY

Sometimes the importer does not wish that his

goods should be discharged on the wharf and desires to take delivery of the goods over the sides of the steamer, into his own lighters which he brings alongside the steamer for the purpose. The object is to effect economy in wharfage because the rate of wharfage on goods in lighters is half of that on goods discharged on the wharf. The importer must immediately submit a letter to the steamship agents requesting them to instruct the Captain of the ship and their stevedore to give overside delivery of the cargo. He must give the full details of the marks, number, and description of the packages and the cargo. In the case of 'dangerous cargo' such as ammunitions, explosives, certain chemicals and other types of cargo declared by the Bombay Port Trust as 'dangerous', the goods are not allowed to be discharged on the wharf and the importer is forced to take overside delivery of the cargo into his own lighters.

LETTER OF DIVERSION

Sometimes the importers, after the goods are consigned to their port, subsequently desire that they should be discharged in some other port than the one mentioned in the bill of lading. Under such circumstances, he must immediately communicate with the steamship agent and find out whether or not the steamer is proceeding to that port, if so he must submit to the steamship agent a Letter of Deversion guaranteeing to keep the agent and the vessel harmless and indemnified from and against all consequences arising from such diversion. He must also guarantee to pay all extra freight and shifting charges connected with such diversion of his cargo.

PRIOR ENTRY

Every steamship agent has to submit to the Custom House an 'Import General Manifest' before the arrival of the steamer, giving full particulars such as marks, numbers, description of packages and cargo on board the steamer. Before this manifest is submitted, the importers are given the facility to lodge their shipping documents in the Customs under a Prior Entry method, in which a smaller manifest is submitted by the steamship agent to the Custom House giving a list and full details of the cargo of such merchants. The great advantage to the importer of such prior entries in the Custom House manifest is that he can get his customs documents passed and keep them ready before the arrival of the goods so that he can obtain delivery of the same immediately on arrival of the steamer, without having to waste any further time to pass his documents.

CUSTOM HOUSE PROCEDURE

The important document which the importer has to submit to the Custom House is known as the 'Bill of Entry for Consumption.' There are different types of this bill of entry e.g., ordinary Bill of Entry, for private merchandise only, the colour of this form is white; the Bill of Entry for Government cargo, the colour of which is reddish. In regard to the cargo which the importer desires to put into a bonded warehouse, he must submit a bill of entry form of a different colour. For putting the cargo into the bonded warehouse, he must use a yellow form, whilst for taking the cargo out of the bonded warehouse, he must submit a greenish form to the Custom House. The contents of these different forms are, however,

identical, e.g. name of the vessel, port of shipment, importer's name and address, number and description of packages and cargo, value of the goods, total amount of duty, etc. The bill of entry for consumption must first be submitted to the Import Department in the Custom House. The clerk in charge of the import section locates this particular item of shipment on the Import General Manifest which he has already received from the steamship agent. The bill of entry is then passed on to the Appraising Department where the amount of duty mentioned is verified. After the payment of duty into the Cash Department or the necessary adjustments through the Accounts Department, the bill of entry is returned to the importer duly signed by the Assistant Collector of Customs, Import Department.

AMENDMENT APPLICATION

Very often it happens that the marks and numbers on packages, their description etc., mentioned in the bill of lading do not agree with the actual marks and numbers on the packages. Since the steamship company's manifest is typed from the bill of lading and the customs manifest is a copy of the steamship company's manifest, the discrepancy is retained even in the customs manifest. The officers of the Custom House in the dock refuse to give delivery of the cargo if the marks and numbers on the bill of lading and on the actual packages are not identical. To avoid this trouble, the importer has to submit an amendment application to the Custom House duly signed by the steamship agent. The Bill of Entry must be submitted to the Custom House along with this application.

CUSTOMS EXAMINATION

With the passed bill of entry, the importer must go to the particular shed where the steamer has discharged her cargo. The importer must then break open a few packages and get them examined by the Customs Examiner who initials the bill of entry after satisfying themselves that the contents of the packages are the same as those mentioned on the Bill of Entry.

DELIVERY

The importer must now present the bill of entry and the delivery order duly endorsed by him before the port-trust shed manager, and the steamship agents' stevedore who sit inside the shed to give delivery of the cargo to consignees. They examine the delivery order carefully and locate the item in the copy of the Customs Import General manifest, which they have already received, the shed manager from the Custom House and the stevedore from the steamship agent. The importer must now make his own arrangements to clear the goods and cart the goods to his own godown outside to dock area.

MARINE SURVEY

Before clearing the goods the importer must satisfy himself that the cargo is in good order and condition and has not suffered any damage during the voyage. If on actual inspection of the goods, the importer has reasons to feel that his cargo has suffered such damage or loss, he must immediately submit an application to the steamship agent requesting them to instruct their marine surveyors to survey his consignment and certify the extent of damage or loss. The steamship agents generally prescribe a time limit beyond which they do

not entertain any application for marine survey from the importers. Usually the time limit is three days for bag cargo and seven days for other types of cargo. If the importer's application for survey is time-barred he is not entitled to a steamer survey but can make his own arrangements for an 'Ex-party' survey either through his own surveyors or through his underwriters. The certificate of survey is very essential to enable the importer to recover the loss or damage either from the carrier or from the underwriters. The carrier generally declines to accept any responsibility for damage to the cargo so long as the total number of packages mentioned in the bill of lading is discharged on the shore.

SHORT LANDING

Very often it happens that the steamer fails to discharge the entire bill of lading quantity on the wharf and carries it forward to other ports either through mistake or oversight. Sometimes a few packages are misled in the dock area and cannot be traced by the importer. Under such circumstances he must immediately address a letter to the steamship agent and also to the port trust dock manager, requesting them to trace these packages. On receipt of this letter the steamship agent sends out circular 'Tracer' to the various agents at other ports and requests them to forward the packages to him if they have been discharged there by mistake.

AUCTION OF UNCLEARED CARGO

Sometimes it happens that a few packages remain uncleared in the port trust docks for many reasons e.g. importers generally are reluctant to clear samples of

cargo; sometimes the importer is in upcountry places and being, unaware of the arrival of his cargo fails to clear the same. Under such circumstances the Port Trust calls upon the steamship agent to inform the consignees to clear the cargo before a prescibed date. If, however, the consignee fails to clear the goods before that date and the goods lie uncleared in the docks, they are removed by the shed manager to a special part of the shed and ultimately sold by public auction after the notification in the Bombay Government Gazette.

TRUST RECEIPT

When the importer is not in a position to meet the Bill of Exchange drawn on him by the foreign exporter, he requests the bank concerned to clear the goods and store them in its godowns under the supervision of its own staff. The importer in such cases signs a document known as the "Trust Receipt" according to the terms of which he appoints the bank the trustee for the goods which it takes into its possession at the importer's cost. The importer sells the goods gradually, pays the money into the bank which gives him delivery order for the necessary number of packages. When all the goods are thus cleared from the bank's godown, the Trust Receipt is cancelled and returned to the importer.

III. TECHNIQUE OF RE-EXPORT

When the Indian importer wishes to export the goods to some other country, he stores them into the Custom's Bonded Warehouse or the Port Trust Warehouse, pending the arrival of the on-carrier. For this, he must lodge a 'bond bill of entry' into the

Custom House and after getting the bill passed, he must carry the goods to the Bonded Warehouse under the supervision of the Custom's Preventive Officers. After the goods are stored into the Bonded Warehouse on payment of provisional Customs duty, he must obtain a Warehouse Receipt. As soon as he obtains freight for the ultimate destination of the cargo, he must get the respective Bill of Entry passed through the Custom House and present it to the Custom's Officer in charge of the the Bonded Warehouse and obtain delivery of the goods by surrendering the Warehouse Receipt duly endorsed by him. The importer must make his own arrangements to carry the goods from the warehouse to the docks under the supervision of the Custom's Preventive Officers. He must then obtain refund of the customs duty by lodging into the Custom House a drawback form and export the goods in the usual manner.

CHAPTER XI

TRADE POLICY

IN recent years, commercial policy* has proved itself to be a very significant factor in the economic development of a country particularly after the last world economic depression. Commercial policy has assumed various forms to meet different situations, the most important of which are, tariff policy, exchange policy, and bilateralism. It is therefore proposed to examine critically the commercial policy of the Government of India, under the first two heads in this chapter.

I. EVOLUTION OF INDIAN TARIFF

Tariffs in India have been in existence ever since the days of the Moghul Empire. The East India Company later on evolved a consistent system of tariffs in India. The duties were generally low and embodied a discrimination in favour of British goods. Until the first half of the 19th century, the Indian trade policy was guided by the prevalent doctrine of *Laissez-faire* which had influenced the minds of economists and statesmen in England. This policy proved very beneficial to England who could send her manufactures to India without tariff obstruction and this proved a veritable blessing to English industries. The

* See the *Report of the Indian Fiscal Commission* 1921-22—page 9.

financial exigencies of Government resulting from the political disturbances in 1857 made it necessary to enhance the tariff but with subsequent improvement in Government's financial position, the duties were lowered. By 1882 the cotton and other duties were abolished and a new era of free trade was ushered in, with the abandonment of the general tariff in India. Free Trade characterised the Indian tariff policy from 1882 to 1894. The regime of free trade came to an end in 1894, when the depreciation of the rupee-sterling exchange combined with the widespread famines in India made it inevitable to reimpose the export duties for purposes of revenue.* This policy of a deviation from free trade continued till the outbreak of the war in 1914. There was no material change in Indian customs tariff. The general feature of Indian fiscal policy before the war was that it consisted of a low uniform rate of duty imposed on nearly all imports. Its object was purely revenue but where the levying of even the low rate of 5% was thought likely to impede the development of the country, as in the case of railway material, machinery and iron and steel, special exceptions were made. On the other hand, liquors and tobacco were singled out as capable of yielding a good revenue without any injury to the country.

The outbreak of war in 1914, however, marked a new epoch in the history of Indian tariff policy. The financial strain of war made fresh taxation inevitable and this resulted in many important tariff changes. The general rate was raised from 5% to 7½% whilst there were also considerable curtailments of exemptions. The war brought about for the first time a considerable

* B. N. Adarkar—*The History of the Indian Tariffs* 1924-39.

co-ordination between Government's commercial and industrial policy. This was the outcome of the increasing importance of state aid to industries which was gradually being impressed upon Government's mind from different directions such as the country-wide agitation for the boycott of foreign manufactures and a partiotic appeal to purchase Swadeshi goods. The Report of the Industrial Commission which was issued in 1918 also emphasized in unmistakable words the urgent need for Government assistance to Indian industries. Directors of Industries were appointed and subsequently Departments of Industries were established in almost all the provinces.

The war brought about the beginnings of a change of attitude of Government towards Indian trade policy. The policy which Lord Curzon had started in 1905 of bringing a greater contact between the government and the commercial world of India received a fresh stimulus because Government had begun to realise the importance of an industrialised India particularly in times of war. The establishment of the Indian Munitions Board in 1907 was the practical expression of a gradual change towards a protective commercial policy from the previous rigidity of free trade policy. By direct purchases of materials in India, by assisting individuals and firms to import plant and machinery, and by giving commercial information and technical advice. the Board did much to foster the progress of Indian industries. The periodical enhancements of the general import duty on cotton piecegoods and the unchanged level of the counterveiling cotton excise duty gave an indication of the solicitude of Government for the development of Indian industries by an appropriate commer-

cial policy. Old duties were eneaced and new duties were imposed on the imports of many articles into India. Export duties came up on the scene as the instruments of tariff policy. The commodities subjected to such export duties were jute and tea. In 1919, the export duty on raw hides and skins introduced two new principles in Indian tariff policy. (1) Protection to the Indian tanning industry and (2) Imperial Preference as 2/3 rebate was given on hides and skins exported to and tanned within the British Empire. Up till then the Indian tariff policy was influenced almost exclusively by considerations of Government revenue and protective preferential considerations played an insignificant part in the framing of the tariff.

After the war Indian industries again began to feel the competition of foreign imports which came to the country unimpeded by protective tariffs. In the years following the last world war there was a strong protectionist sentiment in India which demanded that Indians should be given freedom to ensure their own fiscal policy and that government should not interfere in any way with this freedom. In response to this agitation the Secretary of State for India in 1921, on the recommendation of the Joint Select Committee on the Government of India Bill 1919, sent a despatch to the Government of India accepting the principle of such non-interference in Indian fiscal matters. This is known as the Fiscal Autonomy Convention, which is an important landmark in the evolution of our tariff policy. According to this Convention, which is still in force, the Secretary of State is as far as possible to avoid interference in all cases relating to

the fiscal policy of India in which the Government of India and its legislature are in agreement and his intervention, when it does take place, is to be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party. There has been a heated controversy over the reality of the Fiscal Autonomy Convention, Indians claiming that the autonomy is more apparent than real and Government most assiduously disclaiming the fact.* The controversy may perhaps be explained by a difference of interpretations put upon the Convention by Indians on the one hand and Government on the other. † In the meanwhile the campaign for the grant of protection to Indian industries by an appropriate fiscal policy became very insistent under the leadership of the late Hon'ble Mr. Lalubhai Samaldas and others. In response to the agitation, Government appointed the Indian Fiscal Commission which issued its Report in 1922.

The Indian Fiscal Commission examined critically the various aspects of our trade policy, e. g. Imperial Preference, the form and application of the tariff, the choice between free trade and protection. The Commission condemned the export duties and the then-existing cotton excise duties and recommended a policy of conditional Imperial Preference. The principles which guided the tariff proposals of the Commission where that raw materials and machinery should be admitted free and semi-manufacture goods at low rates; that export duties should continue to be levied to aid research and improved organisation.

* See Sir George Schuster's *Budget Speech* 1921.

† See Vera Anstey : *Economic Development of India.*

The Commission emphasised that the burden of the protective tariff on the consumers should be as low as possible and that difficulties in the shape of shipping rebates, or unfair advantage like dumping, depreciated exchanges, bounty-fed imports from abroad be investigated and where possible removed and that duties should be charged on Government purchases as well as on imports on private account.

IMPERIAL PREFERENCE

The adoption of this principle in Indian trade policy has militated against the rapid industrialisation of India. After the Colonial Conference of 1902 Government recognised the importance of this principle and the need for its adoption was greatly emphasised after the last war when British manufactures began to feel the keen competition of German, American and Japanese manufactures. The aid of Imperial Preference was therefore sought as an escape from this difficult situation.*

The guiding principle of Imperial Preference is that India agrees to import the British Empire manufactures at preferential rates of duties as compared with the manufactures of non-Empire origin and receives such reciprocal preferential treatment for her own goods in the Empire countries. Preference means that goods from one or more favoured countries pay duty at a lower rate than the general rate.† The stimulation of commercial intercourse between the different parts of the Empire and the development of their resources, were forwarded as some of the arguments in favour of the adoption of Imperial Preference. In this connection

* R. D. Tiwari—*Modern Commercial Policy* 1942—page 410.

† Vide *Report of the Indian Fiscal Commission*—para 224.

a proper distinction must be made between protection and preference. The essence of preferential trade is the encouragement of some imports rather than others with a view to securing a market for exports. Protection negatives international trade while preference develops it along definite channels.‡

The Indian Fiscal Commission examined the desirability of Imperial Preference and admitted that any considerable application of a policy of preference would cause distinct economic loss to India. They observed that India would not benefit from the adoption of Imperial Preference as the bulk of her export trade consists of raw materials and foodstuffs which do not stand in the need of preference because they are generally admitted free and find an easy market abroad. In their opinion the economic advantages derived from a preference tend to be more important in the case of manufactured goods than in the case of raw materials because manufactured goods always meet with competition in foreign markets.§ After having critically examined the relative advantage of preference to England and India, they concluded that actual and potential gain to India from Imperial Preference was small and that it was England who could benefit most from the adoption of this policy. Although the Commision fully recognised that a policy of Imperial Preference would impose an unnecessary burden on the Indian consumer, they recommended the adoption of the principle as a means of strengthening the ties between the different parts of the British Empire and as a test of India's loyalty to the British

‡ See W. H. Beveridge and others—*Tariffs—the case examined* (London 1931)—page 135.

§ Vide Report—para 233.

Empire. The principle of Imperial Preference was subsequently embodied in the trade agreements between England and India.

In regard to the possibilities of Imperial Preference the following words of Sir William Beveridge are indeed thought-provoking :—" No one who is prepared to face facts at all can advocate to-day an attempt to make of the British Empire a close-knit economic unit comparable to the U.S.A..........A survey of the actual trade of Britain and principal dominions shows how limited is the field in which preferences could possibly be worth while......Imperial Preference as a practical preposition cannot be presented to day......Twenty-five years ago, in the days of Mr. Joseph Chamberlain, before the Dominions became so protectionist, there was far more scope for Imperial preference than there is to-day.*" He feels that there is a danger that bargaining about preferences may lead to friction between England and her Dominions. If trade grows naturally by mutual advantage between the peoples of the countries, friendly relations and good feelings grow naturally with it. But if trade has to be fostered by bargains between governments and depends upon the nature of the bargains, bad feeling is as likely a con sequence as good feeling.†

Before giving a final verdict upon the policy of Imperial Preference, one must critically examine its effects on the foreign trade of India. One must ask the question whether it has resulted merely in a diversion of trade from one channel to another or whether it has actually increased the volume of our foreign trade.

* W. H. Beveridge op. cit. pages 143—146.

† Ibid—page 147.

It is of no benefit to us if our foreign trade has been artificially diverted from non-Empire to Empire countries or if the imports of foreign manufactures have increased. If the foreign trade of India has been enlarged, one must ascertain to what extent any such NET increase in exports has stimulated employment and production within the country and promoted the wealth and well-being of the people of this country. It has however been felt that Imperial Preference has resulted in raising India's burden of international indebtedness.‡

THE FORM AND APPLICATION OF THE TARIFF

Customs duties take various forms. Those imposed for protecting the home industries, for giving reciprocal treatment to other countries, for retaliating against those countries which have imposed duties against the goods of any particular country or for preventing the dumping of foreign goods upon the home market. The form in which these duties may be levied are many. It may be specific in which the duty is expressed as a definite unit of the commodity or it may be *ad valorem* in which case the duty is expressed as a certain percentage of the value of the commodity. The 'mixed' type of tariff occupies a position intermediate between the above two and contains both the 'specific' and *ad valorem* rates whichever is higher being actually levied at the time of assessment. A 'specific' duty lends itself with great ease and certainty for purposes of collection and administration. In the case of an *ad valorem* duty on the

‡ For further elucidation on this point see B. P. Adarkar: *Indian Fiscal Policy*—pages 525-8 and also B. K. Madan: *India and Imperial Preference.*—page 30-31.

other hand, there is a great difficulty in ascertaining the true value of the goods and a great likelihood of the submission of fraudulent invoices by the importers. A specific duty being a definite sum, enables the importer to anticipate his profits, whereas an *ad valorem* duty might convert his anticipated profits into an actual loss, if the price of the imported commodity goes below a certain level. Although a 'specific' duty removes all ambiguity, it imposes a severe burden upon importers especially in simes of falling prices. Whilst a 'specific' duty ensures a stable revenue particularly in times of falling prices, an *ad valorem* duty provides for an automatic increase in revenue with a rise in prices.

The Indian Fiscal Commission recommended that the Government should publish monthly the prices of commodities which would afterwards form the basis for tariff valuation and further that the system of 'specific' duty and tariff valuations might be extended cautiously wherever the examination by the Tariff Board shows that this is likely to be in the general interest.* In regard to 'bi-linear' or double tariffs, the commission recommended that they were unsuitable to India, whose exports consisted mainly of raw materials and who therefore did not need to extend reciprocal treatment to other countries.

HEIGHT OF A TARIFF

In considering the application of the tariff its height is an important point to be borne in mind. The height of a tariff depends largely upon the purpose behind the tariff. The purpose behind modern tariffs may be summarised under the following headings :—

* Vide Report Para 276.

1. Revenue
2. Protection
3. Bargaining
4. Trade Balancing
5. Preference

When tariffs are imposed mainly for purposes of revenue, they should be kept at a sufficiently low height to avoid any curtailment of consumption and consequently of revenue. On the other hand, if tariffs are imposed for protective purposes, they will have to be sufficiently high to restrict the foreign imports and to place them at a disadvantage in relation to home products. (Protective tariffs are of two kinds: those which are intended to encourage home industries and those which are intended to safeguard them from unfair competition of imports, subsidized, dumped or produced under undesirable conditions.) In the former case the tariff should be sufficiently high to make it unprofitable to import the commodity. In such cases "the minimum tariff becomes an amount which, added to the lowest cost of foreign exporters, makes the sum exceed the highest cost of domestic producers whose production it is desired to stimulate."† This also holds true when a country wants to equalise its cost of production with its competitors in order to maintain a high standard of living and wages within its borders. Obviously, therefore, the height of the tariff in such cases must change with the variations in the domestic cost of production.

Sometimes a tariff is also imposed to counteract dumping or any other advantage which a foreign country has conferred upon its exports. Dumping has been defined as the "sale for export at a

† See E. B. Dietrith *World Trade*, (New York 1939)—page 85.

price, below that prevailing in the domestic market"† and is resorted to for various purposes such as to dispose of over-production, to eliminate competition, to prevent an industry from coming into existence, to develop a market to achieve the economies of large scale production. It is obvious that the height of a tariff in such cases should be equal to the difference between the price for the commodity ruling in its own home market and that at which it is sold in foreign countries.

The height of a preferential tariff is governed mainly by the relations between the countries concerned and the degree of preference that is desired. Tariffs of bargaining assume the forms of multiple column tariffs in which two or three set rates are prescribed, conventional tariffs in which special rates are prescribed, for certain countries and penalty tariffs which are imposed for purposes of reprisal. The height of the tariff will depend largely upon the degree of preference or penalty which it is desired to accord to imports. Tariffs are also imposed to correct an adverse balance of trade and in such cases the height of the tariff will depend largely upon the magnitude of the unfavourable trade balance. If a tariff is of a retaliatory nature, its height will depend upon the height of the tariff to which a country's goods are subjected in a foreign country; it should be high enough to equalise the disadvantage to which its goods are placed in foreign markets.

Modern tariff methods are characterised by the universal adoption of *three-decker* of multiple tariffs, longer and more elaborate tariff schedules, conventionalisation of tariff duties by commercial treaties and

† Jacob Viner : *Dumping* (Chicago 1923).

the appointment of tariff commission or equivalent bodies with power to recommend, or even to make changes in tariff rates. The *invisible* tariff is also gradually coming into prominence. Under this type of tariff Governments prevent the imports from certain countries under quarantine or similar regulations for the ulterior motive of protecting the home industry, e. g. the U.S.A. prohibit the imports of Argentine meat for the laudable motive of preventing the spread of rinderpest or foot-and-mouth disease.*

FREE TRADE vs. PROTECTION

In the words of Sir M. Visweswaraiya, India must either industrialise or perish. There can be no real difference of opinion in regard to the overwhelming importance of industrialisation to India. But the point of controversy arises when the means to this end are set forth. The question is whether a policy of protection or free trade will quicken India's pace towards this indispensable goal of intense industrialisation. A protectionist trade policy has been advocated for India on the plea that it has led to the development of manufactures in other countries. The Fiscal Commission pointed out that protection would safeguard the nascent industries of India from foreign competition. Another factor which strengthened the case for protection was the revenue needs of Government. Diversification of industry, the great importance of basic or key industries for economic self-sufficiency are also other considerations on which the demand for a protectionist tariff policy for India is mainly

* For a critical and authoritative study of the vorious developments in the technique of modern commercial policy read Prof. J. B. Cordliff's recent book: *The reconstruction of World Trade* (London 1941)—Chapters V-VIII.

based. While some economists support protection as an effective cure for unemployment and an infallible means of industrialisation, others doubt very seriously its efficacy in this regard and feel that the burden on the consumer will far outweigh whatever advantages that protection may confer upon the country.* Protection, it has been pointed out, will lead to a rise of prices and increase the cost of living and thus impose a severe burden upon the Indian consumers, particularly the wage-earners, agricultural and middle classes which constitute a major part of the population of India. Some writers feel that maximum protection should be granted to all possible industries to achieve maximum production.† On the other hand others fear that policy of protection will inevitably lead to political corruption, monopolistic combinations of manufacturers, and encouragement of inefficient methods of production. It is not possible to examine these arguments here owing to the limited scope of this work.

DISCRIMINATING PROTECTION

The Indian Fiscal Commission examined this controversy regarding the adoption of a free trade or protectionist tariff policy in India. Whilst reiterating their faith in the effectiveness of protection for industrialisation, they recommended that to minimise the burden on the consumers and to discourage the existence of ineffective industries, protection should be granted only to suitable industries, after a careful investigation as regards the legitimacy of their claim for such protec-

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Read B. N. Adarkar: *The Indian Tariff Policy*, (1936); also H. L. Dey: *The Indian Tariff Problem*, (London 1933)—pages 27-32.

Read C. N. Vakil & M. C. Munshi: *The Industrial policy of India*—pages 63-66.

tion. They summarised their arguments in favour of discriminating protection in the following words:—"In the interests of the consumers generally, and particularly of the masses of the people, in the interests of agriculture, in the interests of steady industrial progress and for the maintenance of a favourable balance of trade, the policy of protection which we recommend should be applied with discrimination, so as to make the inevitable burden on the community as light as is consistent with the due development of industries, and to avoid abrupt disturbances of industrial and commercial conditions."‡

The scheme of discriminating protection outlined by the Indian Fiscal Commission embodied mainly the appointment of a Tariff Board to whom the industries desiring protection should address their claims for the same.

CONSTITUTION OF THE TARIFF BOARD

The existence of a thoroughly competent and impartial Tariff Board commanding the confidence of the country was an integral part of the scheme of discriminating protection recommended by the Fiscal Commission. For this purpose, they recommended that the Tariff Board must be a permanent body which should make detailed inquiries into the claims for protection referred to it and make definite recommendations of purely an advisory character. In every case the final decision must rest with Government and the Legislature. To inspire confidence and to remove suspicion in the public mind, the utmost publicity was to be given to the recommendations of the Tariff Board.

‡ *Vide Report* para 93,—page 46-47.

FUNCTIONS

Amongst its important functions, the Tariff Board was to investigate the claims of particular industries to protection, and, if satisfied that protection was required, to recommend the rate of protective duty, or any alternative measures of assistance such as the grant of bounties; to watch the effects of protective duties or other measures of assistance on industries; to review periodically the results of such protection on each industry, and to make recommendations when necessary for the modification or withdrawals of protection; to report which industries need assistance on grounds of national defence; to enquire into allegation of dumping by Indian industries and to make recommendations for any necessary action; to consider the various aspects of Imperial Preference and generally to watch the effects of Indian tariff policy upon Indian industries and Indian consumers.

COMPOSITION

In view of the very important functions of the Tariff Board, the Fiscal Commission recommended that it should consist at least of three members. The Commission had no hesitation in declaring itself against representation of special interests on the Tariff Board as being entirely unsuitable to the functions of the Board. According to them the guiding principle of the selection of the members should be that the best men available should be engaged, selection depending rather on general qualifications than on specialised or expert knowledge. The members should be men of ability, integrity, and impartiality, preferably with a knowledge of economics and a practical acquaintance with business affairs.*

* Vide Report paras 302-308.

CONDITIONS OF PROTECTION

In dealing with all claims to protection the Tariff Board should take into consideration the fulfilment of the following conditions:—

1. The industry should be one possessing natural advantages, such as, an abundant supply of raw materials, cheap power, a sufficient supply of labour or a large home market.

2. The industry must be one which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country.

3. The industry must be one which will eventually be able to face world competition without protection.

In addition to the above considerations, the Board may also regard other subsidiary factors as favourable to the grant of protection such as the possibility of achieving the advantages of large scale production; a probability that in course of time the whole needs of the country could be supplied by the home production. In the opinion of the Commission, protection was not to be granted to new industries because it would impose a heavy burden on the Indian consumers. In regard to the fulfilment of the above conditions, exceptions were to be made in the case of industries essential for national defence or of special military value and also basic industries such as iron & steel, certain chemicals and minerals and lubricating oils.†

CRITICISM

The policy of discriminating protection adopted by Government has been severely criticised and some writers are inclined to feel that this expression has

† Vide Report paras 97-106.

done more harm to India's fiscal interests than any other single thing or event in the tariff history of the country.* It has been felt that the term discriminating protection is a misnomer since no country in the world would possibly give indiscriminate protection to its industries and in fact no Indian economist has ever advocated such a policy. The conditions for the grant of protection prescribed by the Majority of the Commission are regarded as unduly restrictive and are supposed to have created 'bottle necks and hurdles for them unheard of in the history of world's protectionism.' The conditions in regard to the natural advantages of raw materials and large home markets are felt to be meaningless when the greatest textile industries of Lancashire and Japan have to depend upon foreign imports of raw cotton and foreign markets for their manufactures. Government's narrow construction upon this condition is supposed to have resulted in a denial of protection to many industries on flimsy grounds. e.g.—glass industry has all the advantages except an abundant supply of soda ash, and on this ground Government has denied protection to the industry although the Tariff Board had recommended it.

The second condition lays down that an industry must prove to the Tariff Board that it cannot develop without protection. This means that a capitalist must invest his capital, start an industry and incur heavy losses and thus prove to the Tariff Board the indispensability of protection. There is no certainty that the Tariff Board will recommend the grant of protection and even if it does, there is no guarantee that Government will accept the Board's recommen-

* B. P. Adarkar—*The Indian Fiscal Policy*—page 408.

dations. The whole thing, as Dr. V. K. R. V. Rao, says ' becomes a vicious circle.'†

Although the third condition that the industry should ultimately be able to dispense with protection, is theoretically sound, but it is practically impossible because it throws an undue responsibility upon the Tariff Board to make an accurate forecast of the future prospects of the industry which recommended for the grant of protection.

DEFECTS OF THE TARIFF BOARD

The Indian Fiscal Commission had recommended that the Tariff Board should be a permanent body consisting of at least three members. The Government, however, made three as the maximum number and chose to make the Tariff Board an *ad hoc* body instead of a permanent one as recommended by the Fiscal Commission. Thus the indentity of the Board's opinion with official view is secured by the anxiety of the members to get their appointments renewed and this is bound to interfere with their sense of impartial judgment. "The member who are not guaranteed security of tenure, naturally try to placate the Government of India. It is idle to expect of the members of an essentially temporary board with prospects of lucrative posts of power and prestige awaiting them, to sit on judgment over the rival British and Indian claims dispassionately. Imperial outlook under these conditions is a mere illusion."‡

The scope and power of the Tariff Board are also very limited. The Board cannot take any initiative and

† See Dr. V. K. R. V. Rao's—'*What is wrong with Indian Economic Life?*

‡ R. D. Tiwari : *Modern Commercial Policy* 1942—page 397.

has to be content with examining only such cases as are referred to it by Government. It has no power to compel parties to give accurate information regarding the cost of production with the result that the recommendations of the Tariff Board are based on secondary data. The industries on their part are reluctant to disclose to the Board any true information regarding their business because there is no assurance of secrecy and the information is likely to be misused because there have been many cases in which the members of the Tariff Board have joined business. Furthermore, the Tariff Board's recommendations are of purely advisory nature and the final decisions in all cases rest with the Government of India.

The procedure followed for the grant of protection is also regarded to be unnecessarily elaborate and involving long delays during which 'the industries are suspended from the strong and suffocating red-tape of New Delhi and Simla.'* The procedure followed by the Tariff Board is also dilatory as the Board is required to collect facts and figures, to examine witnesses, to visit industrial centres, to have formal and informal discussions with experts and among themselves, and to write their report at the end of this long ordial. Government on their part also takes inordinately long time in approving the Tariff Board's report, in publishing it, in taking action upon it and even in rejecting it! e. g. Government took three long years to consider and reject the Tariff Board's report on the glass industry. The Government of India recently announced their preparedness to grant any protective measures to war industries against

* Read Mr. Murarji J. Vaidya's speech before the first session of the All India Manufacturers' Conference held in Bombay —Report page 40.

unfair competition after the war that might be necessary to enable them to continue their existence without requiring them to go through the purgatory of a Tariff Board Enquiry.

SUGGESTIONS

As observed by Sir Chunilal B. Mehta, the present policy of discriminating protection should be replaced by one of scientific protection. Government should put a more liberal construction upon the conditions entitling an industry to protection. The defects of the Tariff Board enumerated above should be removed by appropriate measures. As suggested recently by Dr. John Mathai, Government should appoint a permanent Tariff Commissioner, of the ability and impartial outlook of a High Court Judge, assisted by a permanent Secretariat consisting of an economist, a businessman, preferably one with considerable knowledge of accounting, and a technical expert. The functions of the Tariff Commissioner would be as follows:—

1. To inquire into and dispose of all applications for tariff protection from medium and small scale industries.

2. To investigate speedily into all complaints of tariff inequalities arising out of inconsistency of rates of duties on raw materials and manufactured products.

3. To supervise the working of protected industries.

The delegation of powers to this Commissioner presents great difficulties. The problem is whether he should be merely a fact-finding and advisory body on the lines of the Tariff Commissioner of the United States or he should be given independent powers to frame or alter the tariff. In this connection Prof.

Cordliffe makes the following observations :—

"It should, however be recognised that such commissions are, and ought to be administrative devices for exceiting government policy. They cannot be, and ought not to be, bodies of independent authority, except where limited powers, strictly defined are granted for a definite term and are subject to review. There is no cost, price, or other criterion on which they can build a "scientific tariff."*

In regard to the form and application of the tariff, it should be noted that the present tariff consists predominantly of revenue duties. Out of the 87 items enumerated in the import tariff, only 15 items consist of protective duties, whereas the remaining 72 items consist of revenue duties. Furthermore, out of these 15 items of protective duties, large scale industries like cotton, sugar, iron, and steel, matches and paper claims 9 items, while the heavy chemicals are granted only 1 item of protection for magnesium chloride. Two items of protective duties are intended for agricultural products like wheat and wheat flour while the medium and small-scale industries are granted only 3 items viz. sericulture, silver thread and the cotton hosiery industries. The structure of tariff is regarded to be more favourable to Government's treasury than to industries. It may therefore be suggested that to make Government's tariff policy more helpful to the industrialisation of the country, a high basic tariff of 25% should be levied and retained for a sufficiently long time.

CONCLUSION

In pronouncing a final judgment upon the policy of discriminating protection, one must be guided not

* Prof. J. B. Cordliffe op. cit.—page 195.

only by its theoretical soundness but also by its practical results. Some writers feel that the policy has not fulfilled initial hopes of its success mainly because of certain weaknesses inherent in it and also the unfavourable circumstances characterised by world economic disturbance in which the policy has been applied. * There is no doubt that discriminating protection. is responsible for the changing character of our foreign trade. Many of the protected commodities record a distinct tendency of declining imports e. g. cotton manufactures, hardware, sugar, etc This indicates the slow industrialisation that is taking place within the country. Some writers feel that although discriminating protection is assisting the process of industrialisation, it is taking place at the cost of enhanced prices to consumers in India. † This however repudiated by Dr. L. C. Jain by an examination of the indices of prices as well as the cost of living in India. He says that protection has not imposed a burden upon Indian consumers as there is no rise of prices or the cost of living. ‡ As a result of this policy the value of the exports of food-stuffs and raw materials from India is also declining although they still continue to form a major part of our export trade. §

Finally, it should be remembered that the success of commercial policy in India depends very largely upon the economic ideal behind such a policy and the amount of public confidence that the policy is able to command within the country.

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* Vera Anstey *op. cit.*—page 359-60.

† Read H. L Dey—*The Indian Tariff Problem* (London 1933).

‡ L. C. Jain *The Working of the Protective Tariff in India* (Delhi 1941) page 78.

§ B. P. Adarkar *op. cit.*—page 507—514.

The Government of India accepted the Fiscal Commission's recommendations for the adoption of discriminating protection in India. Government conducted Tariff Board inquiries which have resulted in the grant of protection of some industries such as iron and steel, cotton, paper and pulp, and match industries; and the refusal of protection to other industries such as glass, cement, wool and coal. Various amendments to the Tariff Act of 1894 were made in this connection and all these amendments have been subsequently consolidated into the Indian Tariff Act of 1934. The Tariff changes during the last decade or so have been mainly designed to meet the increasing Japanese competition in cotton piecegoods, and the extension of Imperial Preference by the adoption of a policy of bilateral trade agreements. Although most of the tariff changes have been connected with the financial requirements of Government, there have been also some changes on broad grounds of national policy such as the abolition of export duty on tea and the import duties on all machinery and component parts of machineries. The Free List has also been extended since 1930 removing the import duties on tanning barks, ammonium phosphate, and certain agricultural implements etc.

In accordance with the policy of bilateralism, India entered into various trade agreements with Japan and England from time to time. These agreements have been examined in detail in the next chapter.

II. RATIO CONTROVERSY

Foreign exchange rates have assumed great importance in recent years as factors stimulating or retarding the trade of a country. Under the Gold Standard the

parities of the various currencies in world were fixed in terms of gold and any temporary disparities were corrected by appropriate movements of the precious metal. After the last world war, the breakdown of the Gold Standard and the introduction of inconvertible paper currency created new problems in world trade. Exchange of goods between two countries was stated to be governed by the respective level of prices in the two countries and the monetary policy with its influence on internal price structure assumed great importance as a factor in international trade. Prof. Gustav Cassel expounded the purchasing power parity doctrine according to which the exchange rates between the various countries should normally reflect the relation between the internal purchasing power of their national currency units. There will of course, be temporary fluctuations in the foreign exchange market, resulting either in an overvaluation or undervaluation of the national currency. In the former case a considerable stimulus will be given to imports, while in the other, to exports, until the temporary disparity is corrected by the resulting changes in the balance of trade. It should be carefully noted that this stimulus will last only for a short period until the internal price structure and the cost of production get adjusted to the new rate of exchange.

The importance of the exchange rate to a country's foreign trade may be easily seen from the following example :—

Let us suppose two cases : In case I the Indian rupee may be taken to be equal to 1s. 6d. and case II in which the rupee is equal to 1s. 4d. In the fotmer case the rupee is of a higher value than in the latter obvi-

ously because a greater amount of English currency is to be tendered to purchase one rupee. In other words Indian importers can get a greater command over English goods and services in case I, than in case II, by tendering the same amount of rupees in both the cases. Indians will naturally therefore purchase more of English goods than before with the result that the imports of British goods into India will increase. On the other hand, in case II, the rupee is devalued in relation to sterling because it has command over a lesser amount of English currency than in case I. That is to say that the rupee now purchases less of English commodities than before and Indians will naturally curtail their purchases of English goods because they will get less value of goods for the same amount of rupees as before.

If we look at these two equations of rupee-sterling exchange rates from the standpoint of English merchants, the result will be just the opposite. In case I they will have to pay a greater amount of their currency than in case II for the same amount of rupees. Thus Indian goods will be dearer to them than before and they will consequently curtail their purchases of Indian commodities. In the other case, however, exports of Indian goods of England may be stimulated for a short time because the English purchaser will have to pay 2d. less after every Indian commodity worth Rs. 1/-, or, which amounts to the same thing, he will now get a greater value in goods by tendering the same amount of currency as before.

It is of course not possible in the limited space here to examine in greater details the significance of monetary policies and foreign exchange rates to international trade. We might now proceed to state the

heated controversy which has been taking place in India from a very long time, on the choice of the ratio between the rupee on the one hand and the pound sterling on the other.

Indian businessmen have been demanding that the ratio should be fixed at a lower level than 1s. 9d., preferably at 1s. 4d. in the hope that such devaluation will lead to increased exports; whilst the Government of India have declared their faith in 1s. 6d. and declined to lower the ratio obviously because such a policy will lead to the restriction of British manufactures into India. The controversy regarding the ratio in India is not a new one. Every Committee and Commission which has sat to examine Indian currency problems has had to face this controversy. The Fowler Committee of 1899 recommended 1s. 4d. whilst the Babington—Smith Committee of 1919 recommended 2s. and the Hilton-Young Commission of 1926 thought that 1s. 6d. was a more appropriate ratio which would promote the welfare of the country. All of them in support of their own view advanced various arguments which it is not possible to examine here. The devaluation of the rupee is advocated on the grounds that other countries have followed a similar policy; that devaluation would stimulate our export trade and by giving great relief to the Indian Agriculturists and assisting industrialisation would result in the general economic prosperity of the country. On the other hand, it has been pointed out that devaluation would give only temporary advantages; that it would result in currency wars; that it will not necessarily lead to a rise of prices; that it is superfluous because the rupee is not overvalued and because our external and internal trade has been

improving and there is considerable adjustment of internal and external prices.*

A critical examination of these and various other arguments does not fall within the legitimate scope of the present work.

EXCHANGE CONTROL

The most outstanding development in recent years particularly after 1931 in the course of a gradual co-ordination between monetary and commercial policies is the emergence of a new technique of equalising a country's balance of payments by the rationing out of the amount of foreign exchange available to the country as a result of its exports of goods and services. The origin of this technique is to be found in the difficulty experienced by some countries to liquidate their foreign obligations resulting from the withdrawals of foreign capital or flight of national capital to seek safer places of shelter. Exchange control has gradually been used for other purposes like scaling down of debts, regulation of bilateral trade and as a powerful instrument of commercial policy.

India has also adopted exchange control which is administered through the Exchange Control Department of the Reserve Bank of India. This department has been specially constituted to deal with the work relating to the control of dealings in coins, bullion, securities and foreign exchange, under powers delegated to the Reserve Bank by Part XIV of the Defence of India Rules issued under the Defence of India Act, 1939. All applications for the acquisition of

* See The Report of the Hilton Young Commission 1926 and the Minute of Dissent by Sir Purshottamdas Thakurdas.

For Further study read B. N. Adarkar, *Devaluation of the Rupee* and also B. P. Adarkar—*Indian Monetary Policy*.

foreign currency have to be submitted by the autho-rised dealers and banks to this department which scrutinises the forms very carefully to satisfy itself that the needs for foreign exchange are genuine and do not involve any speculation or export of capital. The exchange control is reinforced by a strict control of imports and exports. It has however been felt that the control on imports is more strict than that on exports and it has been suggested that since India has accumulated plenty of foreign exchange, an equally strict control should be exercised on exports.

CHAPTER XII

TRADE AGREEMENTS

COMMERCIAL treaties constitute the next important aspect of trade policy and have assumed greater significance particularly after the last world-wide economic depression. Although commercial treaties pertain mainly to trade between two or more countries, they embody many other matters besides those pertaining to trade. The general scope of trade agreements is well expressed by Calvo in his work of international law. Trade agreements generally provide for the importation, exportation, transit, transhipment, and bonding of merchandise; customs tariff, navigation charges, quarantine, the admission of vessels into each other's ports, coasting trade, fishing rights, the admission of consuls and their rights, the local status of the subjects of each country in the other in regard to residence, travel, ownership of property, payments of taxes or exemptions and military service. Such trade agreements may also include questions of transport. Although the scope of trade agreements is thus very wide, almost all the modern trade agreements are concerned primarily with the regulation of tariffs. The general form of modern trade agreements is much the same embodying mutual tariff concessions but the elaborateness and complexity

of the agreements depend upon the nature of the agreements and the status of the contracting parties. Trade agreements may be divided broadly into: (i) bilateral trade agreements embodying a trade contract between two countries, clearing or payments agreement, compensation or barter agreement, or special commodity agreement and (ii) multilateral trade agreements embodying concessions granted to more than one country. Some of the important clauses in modern trade agreements are those embodying a Most-Favoured-Nation treatment, quota system and bilateralism. We shall proceed to examine briefly these clauses in the following lines.

THE MOST-FAVOURED-NATION CLAUSE

The inclusion of this clause in a trade agreement entitles the country with which the agreement is concluded to whatever trade and other concessions covered by the agreement and already granted to any foreign or third country, or likely to be so granted in future. There are several varieties of such most-favoured-nation treatment but the most common are the conditional or unconditional, limited or unlimited and reciprocal or non-reciprocal forms. The conditional most-favoured-nation clause entitles a country to the privileges granted to another without compensation but can only secure them for an equilvalent compensation if they are granted in return for a concession extended by the other country. In the unconditional most-favoured-nation clause, there is no such stipulation as to compensation and a country is entitled automatically to all concessions granted to foreign countries. Such concessions may be either unlimited or limited to certain groups of commodities

and may also be binding either on both the parties or only on one of them. Although such a clause ensures to a country equal competitive conditions in the other country, it diminishes the value of concessions owing to enlarged area and obstructs the grant of trade concessions to a country because it would naturally be extended to a stronger competitor. The M. F. N. clause is generally combined with tariff concessions of different kinds and has already played a significant part in world trade and holds out great promise as a basis of the reconstruction of world trade in future. *

QUOTA SYSTEM

The inclusion of quotas has become an integral part of modern trade agreements. The cardinal principle of the quota system is the allocation by Government of definite quantities of goods to merchants in the country by the grant of import and export licenses. The different proportions of exports and imports are laid down with reference to the different countries specified by the Government. The origin or the adoption of the quota system may be traced to the need for a more effective weapon of protection than tariffs, for an instrument of bargaining, for the urgency of protecting agricultural interest from foreign competition and the general world trend towards economic nationalism.† The various objects for which the quota system may be adopted by a country are: regulation of the balance of payments, protection to home industries, maintenance of the internal price level, retalia-

* See the Report of the League of Nations on the M. F. N. clause by G. Wickersham.

† See J. B. Condliffe Op. Cit. pages 213 to 216.

tion, reduction of tariff barriers and prevention of dumping. The various types of quotas are (i) the global quotas in which total quotas and not individual quotas by countries are laid down; (ii) the unilateral quotas in which different quotas are specified for different countries and (iii) the bilateral quotas in which quotas are allocated by mutual agreements. Quotas offer a very effective and quick means of protecting the national economic life and are more flexible than tariffs and are thus regarded as a more appropriate instrument of modern commercial policy. As against this, it has been pointed out that the quota system diverts trade in artificial channels, that it reduces the efficiency of production, leads to bitter feelings amongst nations and encourages corruption in its administration by Government officials. The general attitude in the world towards quotas is that they should be abolished at the earliest possible opportunity if post-war world trade is to be reconstructed on a more permanent and rational basis.

BILATERALISM

The principle of bilateralism has dominated trade agreements particularly after 1931. Under this principle two countries enter into a trade agreement embodying the intervention of the Central Bank between the exporters and importers in the two countries in regard to the settlement of their accounts. They also include clearing and payments agreements and compensation or barter agreements.

The general principle underlying these agreements is to facilitate a direct exchange of goods and the offsetting of mutual credit claims without the intervention of foreign exchange. This was adopted on

a wide scale by the European countries, particularly Germany, before the outbreak of the present war to stimulate their trade by deliberate planning and to avoid the undesirable consequences of an unfavourable balance of payments not only upon their foreign exchange position but also upon their national economic life. As professor Candliffe remarks, "there is hardly any aspect of international economic relations that is not now envisaged as coming within the scope of bilateral bargaining. Like modern wrestling, trade negotiations are not hampered by rules. They are 'all in' and 'no holds barred'."* The economic disadvantages of bilateralism are stated to be, that it deteriorates the barter terms of trade from the resulting waste, eliminates the simple and more convenient multilateral system of settling international accounts obstructs international co-operation and specialisation and removes the interdependence, unity and stability of world economy. In its administration, the principle of bilateralism presents great difficulties and results in considerable amount of waste and inefficiency. It is indeed very difficult to estimate the precise effect of the adoption of bilateralism upon the foreign trade of the countries who have adopted it. But the general impression is that it has led to an encouragement of their foreign trade.

INDIA AND BILATERALISM

In regard to the important question of India's entering into bilateral trade agreements with various countries with a view to stimulating her foreign trade, opinions are sharply divided. On the one hand it has

* See Prof. J. B. Condliffe *op. cit.*—page 267.

been pointed out that by adopting a policy of bilateralism, India would fall in with the rest of the world and that this would offer a good compensation for the reduction in foreign trade caused by restrictions placed upon Indian goods in other countries. On the other hand, it has been pointed out that bilateralism would divert India's trade in artificial channels, that it would diminish India's total foreign trade, that India has a favourable balance of trade with important countries who are thus placed at an advantage in tariff bargaining with India, that a policy of bilateralism will impose upon India an obligation to import the manufactures of other countries and this may ruin Indian industries and that India will suffer a heavy economic loss because she will have to give disproportionate concessions to other countries in entering into bilateral trade agreements with them. India, however, has not waited for the verdict of theory on the desirability of bilateralism but has adopted the policy with reference to three countries viz. England, Japan, and recently Burma.

We shall now proceed to examine the various bilateral trade agreements entered into by India with these countries.

THE OTTAWA TRADE AGREEMENT, 1932

We have already studied in the preceding chapter the development of the sentiment of Imperial Preference both in England and India. This principle was finally embodied in a trade Agreement which was concluded between India and England as a result of the Imperial Economic Conference held at Ottawa. The primary object behind this Agreement was to restrict trade to the British Empire and particularly to enable

England to prevent a deterioration of her foreign trade and to solve her unemployment problem at home.

In pursuance of the provisions of this Agreement, India granted to the U. K. a 7 1/2% preference on certain classes of motor vehicles and a 10% tariff preference on various commodities imported into India from the U. K. The commodities number 163 and are included in Schedule F of the Agreement. It was also provided by Article 11 of the Agreement that the Government of India should consider in the light of the findings of the Tariff Board, the protective duties to be imposed on goods of cotton and artificial silk according as they are made in the U. K. or elsewhere and accord tariff preference of 10% on certain goods specified in Schedule G, in case protective duties are not imposed as a result of the recommendations of the Tariff Board.

In return for these concessions the U. K. agreed to permit the free entry of Indian goods complying with the provisions of the Import Duties Act passed by England in 1932. Furthermore, England agreed not to reduce the margin of preference granted to certain Indian goods (e.g. tea, coir yarn, mats and matting, cotton and jute manufactures, skins, tobacco, magnesite, groundnut etc.) in the U. K., and at the same time agreed to impose new or higher duties on certain goods of non-Empire origin. (e. g. wheat in grain 25 per cent; husked rice 15 per cent; castor oil, linseed oil, rape seed oil and sesamum oil 15 per cent *ad valorem*, magnesium chloride 15 per cent, and linseed 10 per cent *ad valorem*. Article 5 of the agreement stipulated that the duty on either wheat in grain or lead as provided in the Agreement would be removed if at any time Empire producers of wheat in grain and

lead respectively are unable or unwilling to offer these commodities on first sale in the U. K. at prices not exceeding the world price, and in quantities sufficient to supply the requirements of the U. K. consumers. The then existing margin of preference on foreign tobacco was guaranteed for 10 years subject to the condition that the duty on foreign unmanufactured tobacco did not fall below 2sh. ½d. per lb. If, however, the duty fell below this level, then the preference was to be equalised with it. By Article 8 of the Agreement, the U.K. undertook to co-operate in any practicable scheme that may be agreed between the manufacturing, trading and producing interests in the U.K. and India for promoting, whether by research, propaganda or improved marketing, the greater use of Indian cotton in the U.K. By Article 9, the U. K. agreed to invite the Governments of the non-Self-Governing Colonies and Protectorates to accord to India any preference which may for the time being be accorded to any other part of the British Empire with the exception of certain specified countries. In regard to iron and steel, a supplementary Agreement was signed.

This Agreement was to continue in force until a date six months after notice of denunciation was given by either party. If the contracting parties desired any change in the agreement, they were to notify the same and to arrive at an agreement by mutual consultation. If, however no agreement was reached within six months of the date of such notice, the original party had a right to give another six months to enforce the change desired.*

* See R. D. Tiwari. *op cit.*—page 425.

CRITICISM

The general reactions to this trade Agreement in India were conflicting. A certain section of Indian opinion regarded the Agreement as marking a new era in the development of India's trade whilst another viewed it as an inauspicious sign for the progress of Indian economic life in general and Indian foreign trade in particular. The advocates of the Agreement stated that the Pact offered a good opportunity to India to compensate herself for the heavy decline of prices resulting from the economic depression because the Agreement ensured a permanent market for Indian produce which was being very adversely affected in other markets by severe competition, high tariffs and the danger of substitution. They pointed out that the leading countries of the world like France and Germany were fighting with currency difficulties and trade with them was exposed to great risk. The only alternative for the benefit of countries like India whose currency was linked to sterling was to promote trade with the Empire particularly the U. K. who had a comparatively stable and well-managed-currency. The aid of statistics of trade was also invoked by the supporters of the Agreement to prove the indications of the great benefit that India had reaped as a result of the diversion of her trade brought about by the Agreement. As against this, it was asserted that the increase in India's export's to the U. K. was a result not necessarily of the preferences granted under the Agreement but of the general increase in demand in England for Indian goods due to increased industrial activity.

The opponents of the Ottawa Trade Agreement pointed out that the Agreement sought to divert India's trade in undesirable and artificial channels

thus inflicting serious damage upon the fabric of her economic life. Furthermore, that although Indian goods were freed from the competition in the U. K., their position in other markets was very severely threatened owing to the retaliatory measures adopted by those countries. Professor B. P. Adarkar* says that the mere fact of a favourable balance of trade with the U. K. does not prove anything because even supposing that figures for exports are a correct guide to the 'gain' or 'loss', we cannot say whether it would not have existed in the absence of the Agreement. It has been emphasised that the advantage which India reaped from the Agreement is in most cases apparent than real. For, India did not really need the preference because her exports, consisting as they do of raw materials, would gladly have been absorbed by other countries. The Agreement, it is said, has proved more advantageous to England than to India, because it ensured a permanent source of raw materials to British industries and permanent market for British manufactures. Paradoxically enough, England did not grant preference where it was really needed most e. g. raw cotton, but granted preference in superfluous instances such as tea, jute manufactures. goat skins, castor seed, lac, myrobalans and mica which had already well-established themselves in the U. K. market. It is supposed that India has had to pay too heavy a price for Imperial Preference embodied in this Agreement in the form of positive damage to some of her industries, to her promising non-Empire trade and a reduction in customs revenue combined with a penalisation of Indian consumers. Indian sentiment has generally felt that this Agreement was forced upon

* *Op. Cit.*—page 548.

India against the declared wishes of her representatives in the Central Legislative Assembly.

CONCLUSION

It is indeed very difficult to give decisive opinion about the effects of this Agreement upon India's economic life. The subject is not only controversial but is often deliberately made complicated and confusing by vested interests. We are faced with a maze of arguments and medley of figures which can be ventriloquied to suit one's own convenience. One cannot help feeling that the critics of this Agreement have often formed their opinion about it much in advance and then searched for facts and figures to support that opinion. It is, of course, true that the procedure adopted for the conclusion of the Agreement was rather hasty and unconventional. The final verdict upon the Agreement must necessarily depend, as already pointed out whilst examining the principle of Imperial Preference, upon whether or not the Agreement has led to a NET increase in exports, employment or total production of the country.

The general hostility against the Ottawa Trade Agreement was so great that after 3 years of operation on 30th March 1936 the Central Legislative Assembly passed a Resolution recommending to the Government of India to give the requisite notice for the termination of the Agreement. Accordingly, Government gave six months' notice of termination to the U.K. on 13, May 1936 by which the Agreement was to come to end on 13th November 1936. On 28th October 1936, however, the Commerce Department of the Government of India announced in a *communique* that the Ottawa Trade Agreement would continue

until it was replaced by a new Agreement subject to termination at three months' notice by either party. Subsequently, Sir Mohamed Zaffrullakhan, the then Commerce Member of the Government of India, accompanied by a non-official deputation was sent to England on behalf of the Government of India to conduct negotiations for a fresh Indo-British trade Agreement to replace the discredited Ottawa Pact.

MODY—LEES PACT, 1933

The British manufactures in India were gradually feeling the pinch of the Indian tariff and also the keen Japanese competition which sometimes threatened their very existence in the Indian market. The textile interests of Lancashire were beginning to appreciate the vital importance of the Indian market to their economic life and the urgency of devising some means like a trade agreement to safeguard the position of British manufactures in India against the severe competition of Japanese goods. It was also felt that such an Agreement would not only ensure a permanent outlet for Indian raw cotton but by bringing the two countries closer to each other would enlist the sympathies of the powerful commercial interests of Lancashire for the political aspirations of India. To achieve these objects an Agreement was reached between Bombay and Lancashire popularly known as the Mody-Lees Pact signed on 8th October 1933. Mr. (now Sir) H. P. Mody, the then Chairman of the Bombay Mill-owners' Association represented the textile interests of Bombay and the Lancashire interests were represented by the British Textile Mission which came out to India under the leadership of Sir William Clare Lees.

Under this Agreement it was recognised that there should be differential duties in favour of the imports of British cotton yarn and piecegoods; that the import duty on the U. K. imports of piecegoods should not exceed 5% *ad valorem* or 1¼ annas per pound; that there should be duties of 30% or 2½ annas per square yard for artificial silk and 30% or 2 annas per square yard on mixtures of cotton and artificial silk; that in so far as the Empire and other overseas markets were concerned, any advantages which might be arranged for British goods should be extended to Indian goods and that in regard to the exports of raw cotton from India to England, the British side should take effective action to popularise and promote the use of Indian cotton in Lancashire As regards cotton piecegoods it was agreed that if and when revenue position of the country made it possible for the Government of India to remove the general surcharge on all imports imposed in October 1931, the Indian side would not make fresh proposals with regard to duties applicable to British imports.

The Agreement was to remain in force till 31st December 1935. The Indian Tariff (Textile Protection) Amendment Act 1934 incorporated the provisions of this Pact.

CRITICISM

It has been pointed out that the Mody-Lees Pact not only implied a vindication of the much-doubted Fiscal Autonomy Convention granted to India but also indicated a better understanding of mutual interests by the business communities of the two countries. On the other hand, it was felt that the Agreement was not truly representative of India since

the Bombay Mill-owners' Association represented only half of the total looms and spindles in the country. The Agreement has also been criticised on the ground that although India gave definite tariff concessions to British manufactures, she received only a vague promise from the British side merely to popularise and promote the use of Indian raw cotton in Lancashire. The supporters of the Agreement stated that the Agreement promoted the interests of the Indian agriculturists by ensuring a permanent market for Indian raw cotton in England. On the other hand, it was emphasised that the Agreement implied an indirect breach of protection granted previously to the Indian cotton mill industry.

SUPPLEMENTARY INDO-BRITISH TRADE AGREEMENT, 1935

We have already noted above the general outcry against the provisions of the Ottawa Pact. On 9th January 1935, a Supplementary Agreement was signed between India and England and was to remain in force during the operation of the Ottawa Pact. The important provisions of the Agreement were as follows:—

(i) That while protection to Indian industry against imports from all sources might be necessary in the interests and well-being of India, conditions within industries in India, in the U. K. and in foreign countries might require a higher level of protection against foreign than against U. K. imports.

(ii) That protection to only such Indian industries would be granted as after due enquiry by the Tariff Board had established claims to it in accordance with the principles of Discriminating Protection laid down by the Indian Fiscal Commission.

(iii) That protection given to any industry should not exceed what was necessary to equalise the prices of imported goods to the fair selling prices of similar goods produced in India, and that wherever possible in harmony with the above provisions, lower rates of duty should be imposed on the goods of U. K. origin.

(iv) That when the question of the grant of substantive protection to an industry is referred to the Tariff Board, the Government of India would afford full opportunity to any industry concerned in the U. K. to state its case and answer cases presented by other interested parties.

(v) That in the event of any radical change in the conditions affecting protected industries during the currency of the period of protection, the Government of India would, on the request of His Majesty's Government, or of their own motion, cause an inquiry to be made as to the appropriateness of existing duties.

(vi) That His Majesty's Government would give consideration to the steps that might be taken to develop the import from India of raw or semi-manufactured material used in the manufacture of articles subject to differential import duties in India. In this connection they particularly undertook to popularise the use of Indian cotton and to continue the duty free entry of Indian pig iron, so long as the differential duties on British steel continued on their existing margins in India.

CRITICISM

This Supplementary Indo-British Trade Agreement marked some important modifications in India's fiscal policy. Whilst reiterating the policy of preferential duties for British manufactures and the policy of

discriminating protection previously adopted, it introduced the principles of preference within protection and industrial co-operation between India and England. Sir Joseph Bhore, however, informed the Central Assembly that the Agreement did "nothing more than crystallise their past practice and the principles which had been accepted either directly or indirectly by the Legislature". The hostile critics of the Agreement, on the other hand, pointed out that the Agreement conferred still further tariff concessions upon British manufactures without any corresponding benefits to India; that the Agreement had almost neutralised the previous policy of discriminating protection, and that the Agreement embodied another breach of the Fiscal Autonomy Convention since Indian opinion was not even consulted before the conclusion of the Agreement and the Government of India could not alter the preferential duties to the detriment of English goods. India is supposed to have struck a very poor bargain in this Agreement with England in as much as for all the above definite and valuable concessions granted to the U.K., she received only a vague promise to develop the import of Indian raw cotton into the U.K. and duty-free entry of Indian pig iron in return for preferential duties on the imports of *all* British iron and steel goods into India. It has also been stated that the Agreement considerably modified the previous policy of discriminating protection because it made the fair selling price the exclusive criterion for the measure of protection; and further because it entitled a British industry to state its case and answer the cases presented by a corresponding Indian industry to the Tariff Board for the grant of protection and moreover, it authorised the British Government. even

during the period of protection, to cause an enquiry to be held as to the appropriateness of existing duties if they feel that, in view of the economic changes, revision is necessary. The general hostility towards this Supplementary Indo-British Trade Agreement was so marked that the Agreement was thrown out by the Legislative Assembly but, in spite of this, it was certified by the Governor-General-in-Council and remained in force till 31st March 1939 after which it was allowed to lapse and was superseded, along with the Ottawa Pact of 1932, by a new revised Indo-British Trade Agreement concluded between the two countries on 20th March 1939 after long negotiations.

NEW INDO-BRITISH TRADE AGREEMENT, 1939.

The provisions of this new Agreement were embodied in the Indian Tariff (Third Amendment) Act 1939, which was certified and put into force although the Bill for it was thrown out by the Assembly by an overwhelming majority. The main provisions of the new revised Indo-British Agreement may be summarised as follows:—

The principle of granting preferential duties to British goods has been retained while Indian goods entering free of duty into the U K. will continue to do so in future, Certain commodities like shellac, lac, raw jute, myrobalans, and mica, are to be imported free of duty into the U.K, The U.K. has agreed to grant specified margins of preference to specific commodities. e.g. 10% *ad valorem* preference to bones, castor seeds, coir, yarn, goat skins (raw), groundnuts, linseed, paraffin wax, etc.; 15% *ad valorem* preference to jute manufactures, dressed leather and oils from castor, coconut, linseed, groundnut, rape and sesamum seeds, etc.; 20% *ad*

valorem preference to coir mats and matting, cotton manufactures etc.; 1 sh. per cwt. preference to magnesium chloride; 9 sh. 4 d. per cwt. to coffee; 2 sh. per lb. to tea: 2/3 d. per lb. to rice and 4 sh. 6 d. per sq. yard to hand-made carpets and floor rugs. The then-existing margin of preference on Indian tobacco was to be maintained by England till 19th August 1942. This preference was to be equalised with the full duty if it fell below 2sh. ½d. per lb. England also promised to promote the marketing of Indian cotton in the U.K.

In return for the above concessions, the Government of India guaranteed specified margins of preference for specific British goods e.g. on drugs and medicines containing spirits, Rs. 4/- per Imperial Gallon if untested and Rs. 3/-. per Imperial Gallon on tested goods; 10% preference to cement, chemicals, paints, colours and painters' materials, fents, woollen carpets, floor rugs, refrigerators, wireless apparatus, cycles, etc.; 7½% preference on motor cars, motor cycles, vans, lorries and omnibuses.

The most noteworthy feature of the Agreement is the linking of the exports of Indian raw cotton to England on a sliding-scale basis with the imports of British cotton piecegoods into India. The Agreement provides a basic rate of 17½% *ad valorem* on printed goods, 15% *ad valorem* or 2 as. 7½ ps. per lb. whichever is higher, on grey goods and 15% *ad valorem* on all other goods. If, however, in any year the imports of British cotton piecegoods do not exceed 350 million yards, the duties charged after the end of that year and until the end of any year in which such imports exceed 425 million yards, the duties are to be reduced by 2½% even below the basic rate with a proportionate

reduction in the specific duty on grey goods. If, however, in any year the imports exceed 500 million yards, the rates of duty in the following year are to be increased above the basic rates to such an extent as is considered to be necessary for restricting such imports to the 'maximum yardage' figure of the previous year. The maximum yardage figure are to depend upon the annual off-take of Indian raw cotton by England-who was expected to import 5 lakh bales in 1939, 5½ lakhs in 1940 and 6 lakh bales in every subsequent year. For every 50,000 bales or less of deficiency in off-take, the total imports of British cotton picegoods into India are deemed to have increased by 25 million yards. The Government of India was authorised to increase the basic rates of duties on British cotton piecegoods after consultation with the British Government, if the deficiency in the off-take of Indian cotton exceeded one lakh bales in 1939 or 1½ lakh bales in subsequent years. This Agreement was to remain in force till 31st March 1942 subject to six months' notice of termination by either party.

CRITICISM

Some critics regard this Agreement as marking a distinct improvement on similar previous Agreements in view of the reduction of the Preference List of British goods, its restriction only to those British goods which have great scope in the Indian market and in view of the linking of the exports of Indian raw cotton to the U.K. and the imports of the British cotton piecegoods into India. On the other hand. it has been pointed out that this new Indo-British Trade Agreement does not make any fundamental departure from its predecessors in view of the retention

of substantial preferences to the British goods and the enhanced encroachment by Lancashire upon the Indian market to the detriment of the domestic cotton industry. It has further been stated that the preferences on the imports of Indian foodstuffs and raw materials are more beneficial to British industries than to Indian cultivators, that the preferences granted to Indian goods being also shared by the other countries of the British Empire, expose the Indian goods to a severe competition and that preference to Indian tea is restricted in its practical utility owing to restriction schemes. Similarly, the standard figures of cotton imports from which the deficiency or excess is to be calculated are regarded to have been kept at a sufficient low level to benefit the British textile industry.*

INDO-JAPANESE TRADE AGREEMENT, 1934.

The need for this Agreement arose owing to the dumping of Japanese cotton piecegoods upon the Indian market as a result of the depreciation of the Japanese yen. The Indian cotton industry was severely threatened but the Government of India could not grant the necessary protection because the Indo-Japanese Trade Convention of 1904 did not permit any discrimination against Japan. His Majesty's Government, on behalf of the Government of India, terminated this Convention and raised the duties on Japanese cotton piecegoods. This led to a retaliatory boycott of Indian raw cotton in Japan and to avoid this unpleasant deadlock, negotiations for a new Indo-Japanese Trade Agreement were started between the representatives of the two countries. After pro-

* See B. P. Adarkar *op. cit.*—page 561.

tracted negotiations, a Trade Agreement was drawn up and signed in London on 12th July 1934.

The Agreement is divided into two parts—the Convention and the Protocol attached to it. The Convention lays down the general principles governing the Indo-Japanese trade relations, whilst the Protocol prescribes the details of duties on Japanese piecegoods and the quota of Indian raw cotton to be fulfilled by Japan.

The important provisions of the Convention are reciprocal most-favoured-nation treatment, mutual consultation in case of any adverse tariff changes, and reciprocal rights to counteract the effects of currency depreciation by approprite tariff changes. This Convention, was to remain in force until 31st March 1937, subject to six months' notice of termination on either side.

The Protocol, for the first time in Indian Commercial policy, lays down a system of quotas. Under the provisions of this Protocol, the Government of India agreed that the duties on Japanese cotton piecegoods would not normally exceed the following rates:—Plain greys 50% *ad valorem* or $5\frac{1}{4}$ annas per lb. whichever is higher and 50% *ad valorem* on others. Furthermore, the imports of Japanese piecegoods into India were linked on a quota basis with the exports of Indian raw cotton to Japan. The annual basic quota for Japanese piecegoods was fixed at 325 million yards against an off-take of 1 million bales of Indian raw cotton by Japan. Japan could send 125 miilion (linear) yards of cloth without any obligation to buy Indian cotton. In case the exports of Indian raw cotton to Japan in any cotton year (Jan. 1st to Dec. 31st)

fell below 1 million bales, the quota of Japanese cotton piecegoods for the corresponding piecegoods year (April 1st to March 31st) was to be determined by reducing the above basic quota at the rate of 2 million yards for every 10,000 bales of deficiency. If, however, exports of Indian cotton in any cotton year exceeded 1 million bales, the Japanese quota was to be determined by increasing the basic quota at the rate of 15 lakh yards for every 10,000 bales with a maximum quota of 400 million yards. In the event of exports of Indian cotton exceeding 15 lakh bales the excess was to be added to the quantity of raw cotton exported to Japan in the next year for calculating the quota for Japanese piecegoods.

CRITICISM

This Agreement was generally regarded as favourable to India since it fixed a definite quota for the exports of raw cotton to Japan although the free gift of 125 million yards to Japan was resented by the Indian cotton mill industry. But some of the glaring defects of the Agreement were the omission of artificial silk from the quota, the fixation of the quota of Japanese piecegoods in linear yards, the omission of fents, and absence of any provision to protect Indian small-scale and handicraft industries. Taking advantage of these loop-holes in the Agreement, Japan began to send huge quantities of ready-made cotton and artificial silk goods, manufactures of various types and of the same number of linear yards but with unconventional widths. To overcome these shortcomings, a new Indo-Japanese Trade Agreement was concluded and came into force from 1st April 1937 when the previous Agreement terminated.

NEW INDO-JAPANESE TRADE AGREEMENT, 1937.

The new Agreement, whilst maintaining the general principles of the previous Agreement, effeets changes of detail such as the raw cotton and piecegoods quotas. The new Agreement reduced the basic quota for Japanese piecegoods from 325 million yards to 283 million yards which was linked with an offtake of 1 million bales of Indian raw cotton by Japan. It fixed a maximum quota of 328 million yards for Japanese piecegoods which was linked with an off-take of $1\frac{1}{2}$ million bales of Indian raw cotton by Japan. If the exports of Indian raw cotton exceed 1 million bales the piecegoods quota is to be correspondingly raised at the rate of $1\frac{1}{2}$ million yards for every 10,000 bales subject to the prescribed maximum. The piecegoods quota was distributed as follows:—Plain greys 40%, bordered greys 13%, bleached (white) goods 10%, printed goods 20% and other coloured (dyed or woven) goods 17%. Although the Agreement excluded silk fents and artificial silk goods, it prescribed a maximum quota of 8.95 million yards for cotton fents.

This Agreement came to an end on 31st March 1940 and although negotiations were started for a new Agreement, the entry of Japan into the war has compelled the Government of India to postpone the negotations *sine die.*

NEW INDO-BURMESE TRADE AGREEMENT, 1941

After the separation of Burma from India a new Indo-Burmese Trade Agreement was signed in March 1941. Under this Agreement, valuable mutual tariff concessions have been given. The practical significance of this Agreement may probably be proved in the post-war period.

CHAPTER XIII

DIRECTION OF TRADE

DIRECTION of India's foreign trade is an interesting subject especially with regard to the formulation of a consistent trade policy in India. Such a study will explain to us the various changes in India's commercial relations with the various countries in recent years e. g. the adoption of Imperial Preference towards England, bilateralism, restrictions of India's trade relationships with certain countries etc. The overwhelming importance to the industrialised countries, of permanent trade relationship with India who provides their industries with the necessary raw materials and their population with the essential foodstuffs began to be increasingly appreciated during the last few decades of the nineteenth century which witnessed a keen scramble amongst the leading nations of the world for the supremacy of India's foreign trade. The vicissitudes of the distribution of India's overseas trade have not only been an unmistakable indication of the changing character of her economic life, but have also been a constant reminder of the evolution of her unfortunate political status. A clear analysis of these periodical changes is therefore very essential to a thorough understanding of the various problems, both real and apparent,

confronting a serious student of India's economic life in general and her foreign trade in particular. It is therefore proposed to examine the various tendencies in the direction of India's trade with special reference to some of the leading nations of the world in the following few pages.

DIRECTION OF INDIA'S TRADE

We have already seen that in the ancient times India carried on trade with Egypt, Arabia, Persia, Babylonia, the European Continent on the western side, and China, Tibet, Japan, Java, and Sumatra on the eastern side. After the coming of the European adventurers in India, there is supposed to have been a considerable amount of regional expansion of India's foreign trade. The European companies developed new markets in Asia, Africa, Europe and the U.S.A. During this period the direction of India's trade was dictated mainly by the military conquests of one country by another. When after the battle of Plassey, the East India Company gained military supremacy over India, Indian trade began to be gradually channelised in the direction of England. This attempt, with temporary and inevitable setbacks, has been so consistent and, at the same time so remarkably successful, that to-day the great magnitude of India's trade with England is regarded as a natural and indispensable phase of her economic life.

Before the last world war there was a tendency for India's foreign trade to be diverted from England to other countries particularly Germany, Japan and the U.S.A. This was the natural result of the rise of the German and the American industries which offered serious competition to English manufactures in

world markets. These countries gained what England lost in the Indian market. Germany's share in India's import trade rose from 2.5% in 1900 to 6.9% in 1914. Similarly, the value of exports from India to Germany rose from only £ 5 million in 1900 to £ 17.5 million in 1914. Japan and the United States also recorded similar improvements in their trade relationships with India. The decline of the importance of China in India's foreign trade was an important feature of the distribution of India's overseas trade at this time.

During the war the U.S.A. and Japan made further inroads into the Indian market at the expense of the U.K. The complete stoppage of trade with Germany and the virtual stoppage of the imports of British manufactures into India created a wide gap in the Indian market which was systematically filled up by the U.S.A. and Japan which began to take an increasing share in the import trade of India. The direction of India's imports therefore began to be gradually diverted from the U.K. to these countries. Thus England's share came down from 64% in 1913-14 to about 46% in 1918-19. Owing to England's pre-occupation with the production of war materials, India began to import increasing quantities of iron and steel goods, cotton piecegoods, and dye stuffs from these countries.

The direction of the exports of India during the war period was mainly towards England as a result of special efforts made by England to utilise India's resources for war purposes. As a result of this, England's share rose from about 23% in 1913-14 to 29% in 1918-19. Germany ceased to absorb any Indian exports whilst France, Belgium and other Continental

countries also reduced their off-take of Indian produce owing to the difficulties of transport created by the war. As on the import side, the shares of Japan and the U.S.A. also recorded considerable increase, e.g. from about 9% it rose to about 13% in both the cases.

After the last world war, for a few years until 1931, the previous tendency for the direction of India's trade to be diverted from the U.K. to Japan and the U.S.A. received further stimulus. England found it difficult to regain her old position in the Indian market not only owing to economic troubles at home and political troubles in India but also owing to the reappearance of old competitors like Germany and others. England's supremacy in India's trade was seriously threatened and she found it difficult to watch with equanimity her declining importance in India's foreign trade. England, however, rescued herself out of this embarrassing situation by requiring India to give preference to British manufactures over non-British ones and also to adopt a policy of bilateralism under the well-known principle of Empire Free Trade. By appropriate fiscal policy and the extention of the most-favoured-nation treatment embodied in the various trade agreements signed by England with India, she succeeded gradually in ousting her competitors, from the Indian market and in regaining her old mastery over India's foreign trade. By appropriate tariff policy, the German and the Japanese manufactures were shut out and the way was thus made clear for the importation of British manufactures into India. In spite of this, however, the shares of these countries in India's trade were gradually increasing until the outbreak of the present war.

WAR-TIME DIRECTION OF INDIA'S TRADE

During the present world war direct trade with Germany and Japan has completely stopped. In the beginning, owing to the loss of the Continental markets and the dangers to which marine transport was exposed in the Atlantic Ocean, there was a tendency for India's trade to be diverted to the Dutch East Indies, Japan and the U. S. A. via the Pacific Ocean. South Africa, Persia and Australia also began to assume greater importance in India's overseas trade particularly in cotton piecegoods. With Japan's entry into the war and her subsequent occupation of the N.E I. ports, the initial diversion of India's trade to the U.S.A. via the Far Eastern countries has suffered a great setback. A more intense channelisation of India's exports to the U. K. and the Middle East countries is gradually taking place through special efforts made by the U. K. Commercial Corporation, the Ministry of Food Supply and other similar bodies appointed by the British Government. The shares of the Empire countries in the import trade of India have also recorded a considerable increase.

The main features of the present direction of India's trade may be studied from the table* on the next page.

From table A below, it is clear that there was a simultaneous decline both in the exports to and imports from the U.K. Gradually, however, the exports to the U. K. increased athough the imports from that country remained unchanged and in 1941-42 the balance of trade rose to Rs. 64 crores from Rs. 30 crores in the previous year. India also enjoys a

* From the *Trade Review* for 1940-41—page 150-51.

favourable balance of trade with other British possessions excluding Burma, with whom she had an unfavourable balance of Rs. 17 crores in 1941-42 as compared with Rs. 10 crores in the previous year.

TABLE A.

DIRECTION OF TRADE

+ Favourable
— unfavourable
(In crores of Rupees)

Countries	1940-41			1941-42			1942-43		
	Export.	Imp.	Net.	Ex.	Imp.	Net.	Ex.	Imp.	Net.
U. K.	65	36	+29	77	37	+40	57	30	+27
Burma	18	28	−10	12	29	−17	0.33	2	—1.67
U.S.A.	32	27	+ 5	46	35	+11	28	19	+ 9
Japan	9	22	−13	5	12	− 7	...	3	− 3
Straits Settlements	3	5	− 2	4	5	− 1	...	...	...
Australia	7	2	+ 5	11	5	+ 6	16	3	+13
Canada	3	3	Nil	6	7	− 1	4	6	− 2

TABLE B.

DISTRIBUTION OF TRADE

Countries	Exports	Imports
	%	%
United Kingdom	35	23
Burma	9	18
U.S.A.	14	17
Japan	5	14
Straits Settlements	2	3
Canada	2	2
Australia	4	2

Table B shows percentage distribution of India's import aod export trade with the important countries of the world. Although the U.K. occupies a leading position, her share along with that of the Continental countries sufferred a considerable contraction upto the outbreak of the war. On the import side during the first two years of the war, the U.S.A., Japan, China, and Iran sent increasing quantities of goods to India, whilst on the export side India sent larger quantities to Ceylon, Burma, Australia, and the U.S.A. The decrease in the U.K.'s share in India's import trade was mainly accounted for by a reduction in the imports of cotton manufactures, paper and paste-board. provisions, etc.

The U.S.A. and Japan began to send increasing quantities to India of hardware, instruments and apparatus, liquors, paper and paste-board. chemicals and provisions. Japan took advantage of the declining imports of British cotton manusactures and began to send larger quantities of her own manufactures to India. Thus the general conclusion may be drawn that in the initial stages of the war, the U.S.A. and Japan began to fill up the gap created by the declining importance of the U.K. in the import trade of India. On the export side a tendency for a channelisation of food-grains to the U.K. and the raw myterials to the U.S.A. was distinctly visible by 1940-41. This was the natural outcome not only of the relative safety of the Pacific Route but also of the relatively more favourable conditions of war production in the United States whose reinforcement of Britain's war effort depends on the supplies of the some of the essential raw materials from India. With the fall of France almost all the Continental markets were clossd for India.

As a consequence of this the foreign trade of India began ro be gradually circumscribed within the countries of the British Empire. The U.K. however, increased her share of India's exports of tea and raw jute. Indian raw cotton, however, began to be diverted from Japan, until then the leading purchaser of raw cotton, to China.

RECENT TRENDS

After the entry of Japan into the war and the consequent spread of military operations in the Far East, there have been significant changes in the geographical distribution of India's foreign trade. The declaration of Japan as an enemy country and the Freezing Order of 1941 resulted in the virtual disappearance of Japan from the foreign trade of India. With the subsequent war developments in the Far East, Hongkong, the Phillipine Islands, the Straits Settlements, the Dutch East Indies and recently Burma, were added to the list of lost markets for India's foreign trade. The loss of Burma was the most severe blow to India's trade with the Empire countries. This can be easily seen from the fact that the value of imports from Burma recorded a very heavy decline to about Rs. 2 crores in 1942-43 as compared with Rs. 29 crores in 1941-42. The commodities that were affected most were kerosene oil and petrol, rice and timber; whose great shortage is now being felt within the country. In regard to the supply of mineral oils to India, Iran is gradually filling up the gap created by the elimination of Burma, as can be seen from the enormous increase in the value of imports from Iran, which rose from only about Rs. 6 crores in 1941-42 to Rs. 18 crores in 1942-43. The occupation of the Dutch East Indies by Japan, although

it created an acute shortage of quinine in India, proved to be a blessing in disguise for certain commodities produced in India such as tea, coffee, spices, pepper etc., the demand for which increased owing to the elimination of Dutch competition.

The U.K. is still, however, the biggest supplier of goods to India, although the value of British imports has been steadily declining until, in 1942-43 it stood at about Rs. 30 crores as compared with about Rs. 50 crores in the pre-war years. The most outstanding recent development has been the declining trend of imports from the U.S.A., probably owing to her greater preoccupation with war production. The most phenomenal rise in the import side is noted in the case of Canada whose imports into India rose to about Rs. 6 crores in 1942-43 as compared with barely about Rs. 31 lakhs in 1941.

The export trade of India has however been showing signs of slight improvement owing to the recent huge offtakes of Indian produce by the U.K., which still continues to be the best customer for Indian goods, being followed by the U.S.A. The most outstanding recent development on the export side has been the phenomenal rise in the value of export to Australia, which rose to about Rs. 16 crores in 1942-43 as compared with barely about Rs. 3 crores in 1938-39. This is explained mainly by the heavy exports of Indian piecegoods to Australia. Exports of foodgrains to Ceylon have been increasing steadily owing to the recent developments in that country. India's exports to Iran, Iraq, Arabia and the N.W.F. countries have shown signs of better prospects than before, because they have now to depend mainly upon India to fulfill their requirements of manufactures. The

most noteworthy of these is Iran, whose imports into India rose by about Rs. 12 crores whilst the exports of Indian goods to Iran rose by about 3 crores in 1942-43 as compared with the preceding year.

Very recently, however, our trade with the U.S.A. has been recording a declining tendency probably owing to the Lease-Lend Pact and certainly owing to the scarcity of tonnage. It has, however, been reported that the U.S.A. has placed huge hessian orders, which are likely to be completed during the next few months. This will undoubtedly exert an important influence upon India's foreign trade in general and her trade with the United States in particular. The trade figures for 1942-43 reveal another important tendency for a reduction of India's trade with the Empire countries.

It is indeed very difficult to predict the future changes in the direction of India's trade. The question has to be considered in the light of possible developments in the war situation, difficulties of transport, the demands made by the war upon the productive capacity and the exploration of new markets for Indian goods. But "as matters stand at present there may not be any noteworthy variation in the geographical distribution of India's trade during the current year; but, with the growing strength of the United Nations and with the steady and sure emancipation of many of the countries now under the heels of the Axis-Powers, we may expect a decided improvement in India's foreign trade in due course."*

TRADE WITH THE GREAT POWERS

After having traced above the various changes in the

* *Commerce*—13th March 1943.

direction of India's trade, we shall now proceed to study the geographical distribution of India's foreign trade with reference to some of the leading nations of the world.

1. INDO-BRITISH TRADE

England occupies the most predominant position both in our import and export trade. It is the largest source of supply of manufactures and also the biggest market for Indian foodstuffs and raw materials. The principal commodities imported from England are, cotton manufactures, machinery and millwork, instruments and apparatus, woollen manufactures, hardware, liquors, rubber manufactures, paper and pasteboard. The principal commodities exported to the United Kingdom are, raw cotton, tea, jute and jute manufactures, oilseeds, hides and skins, raw wool, oilcakes and foodgrains, metals and ores. The main features of our trade with England are: a favourable balance of trade but an unfavourable balance of payments, the pegging of the rupee-sterling exchange at 1sh. 6d. and a bilateral trade Agreement embodying Imperial Preference. The following table gives the value of imports from and exports to the United Kingdom :—

INDO-BRITISH TRADE

—Unfavourable
+Favourable.
(in crores of Rs.)

Year	Imports	Exports	Balance of Trade
1938-39	46	58	+ 12
1939-40	42	75	+ 33
1940-41	36	65	+ 29
1941-42	37	77	+ 40
1942-43	30	57	+ 27

The above table discloses some important trends of our trade relationship with England. Alhough our imports from the U. K. have been steadily declining, our exports to that country have been increasing after the outbreak of the war. Our balance of trade with England has also been increasing. This may be explained by the huge shipments of foodstuffs and raw materials from India to England. During the last year, however, the exports recorded a very steep decline to Rs. 57 crores from Rs 77 Crores in the preceding year.

Future :—

The future of Indo-British trade depends largely not only upon the post-war economic development of India but also upon the political relations between the two countries. It is natural that in the post-war period, India will adopt a policy of intensive industrialisation in order to raise the standard of living of the people. To achieve this object India will need expert technical skill and an enormous amount of capital goods. If England wants to retain her supreme position in the Indian market without obstructing Indian aspirations, she must supply machinery and plant and selective consumers' goods for which there is a great scope in India. Sir Thomas M. Ainscough, His Majesty's Senior Trade Commissioner in India, Burma and Ceylon, emphasised this point in the following words: "My conclusions hitherto have been that we must rely more and more in future on the shipment to India of capital products, technical equipment and high grade specialities, thus aiding its own development with our experience and technique."* The Rt. Hon'ble Mr. L. S. Amery,

* *Conditions and prospects of U. K. Trade in India*—1937-38.

the Secretary of State for India, in a recent address to the Institute of Exporters, London, visualised the feature of Indo-British trade along similar lines. He stated, "for a highly industrialised country like ours whose capacity for producing foodstuffs and raw materials is inadequate, both in volume and range, for the total requirements of its population and industries, it lies in making good our deficiencies in these respects by imports. To secure these imports we must export one article of which we have unlimited surplus, viz. technical skill as embodied in our manufactures."†

2. INDO-AMERICAN TRADE

The United States of America normally occupy a leading position among the non-Empire countries trading with India and at present is second only to the U. K. The principal articles of imports from the U S.A. are machinery and millwork, instruments, unmanufactured tobacco, chemicals, dyeing and tanning substances, paper and paste-board, raw cotton and, after the outbreak of the present war, old newspapers, boxshooks, timber etc. The principal commodities exported to the U.S.A. are jute, raw and manufactured, hides and skins, lac, fruits and vegetables, raw cotton and raw wool, tea and some oilseeds, mica, cashewnuts metals and ores, shellac and myrobalans. The main features of our trade with America are a very favourable balance of trade, export of raw materials and imports of manufactures and a considerable amount of tourist traffic. India's trade with America is characterised mostly by primary products or semi-manufactures; India's exports to the U. S. A. are complimentary rather than competitive with the

† See *Commerce*—24th July 1943.

American economy and the volume of India's exports to America follows the trend of business conditions in that country, especially in those commodities which are essential for the American industries. The following table gives the volume of imports from and exports to the U.S.A. :—

INDO-AMERICAN TRADE

+ Favourable.
— Unfavourable.
(in crores of Rs.)

Year	Imports	Exports	Balance of Trade
1938-39	10	14	+ 4
1939-40	15	27	+12
1940-41	27	32	+ 5
1941-42	35	46	+11
1942-43	19	28	+ 9

From the above table it is evident that the outbreak of the present war resulted in an enormous increase both in imports from and exports to the U. S. A. The imports rose from Rs. 13 crores in 1938-39 to Rs, 35 crores in 1941-42 whilst the exports similarly rose from Rs. 14 crores to Rs. 46 crores during the same period. After the entry of Japan into the war and the subsequent developments in the Dutch East Indies, the Pacific route from India to America became exposed to great risks and this has had a depressing effect upon the quantum of Indo-American Trade. This can be seen from the fact that the value of imports from the U.S.A. to India declined heavily from Rs. 34 crores in 1941-42 to Rs. 19 crores in 1942-43, whilst the value of exports from India to the U.S.A. also fell heavily from Rs. 46 crores to Rs. 28 crores during the same period.

Future :—

The present war has brought into greater significance than before the immense possibilities of Indo-American trade. India is at present seventh in importance in the import trade of the U. S. A. whilst the U. S. A. are second in importance to the United Kingdom in the foreign trade of India. The U. S. A. are in a stage of economic recovery under the influence of the huge production to prosecute the present war on behalf of the Allied Countries. This state of affairs is likely to continue for a considerable time to come and stimulate our trade with America. There is a considerable scope for Indian goods in the American market in order to compensate them for the loss of European markets. Commodities like mica, manganese ore, rubber, coffee, tea, lac and shellac, myrobalans, cashewnuts, lemon-grass oil, cardamoms and ginger present great possibilities if they are properly exploited and developed. In commodities like hides and skins, oilseeds, India will have to face increasing competition from South American and Argentina in the post-war period. Considerable progress in the American market has been made by Indian consumers, goods like cotton prints, duggets, etc. Indian consumers' goods can therefore look forward to capturing the American market provided of course Indian merchants pay a great attention to the features of the American market, the periodical changes in the tastes of the American consumers, variety and novelty of designs, promptness of delivery and such other important matters. As Dr. T. E. Gregory and Sir David Meek state in their joint report on the prospects of Indian trade with the U. S. A., "'made in India' is itself a selling point and the anti-Japanese prejudices on the part of certain consuming

sections should assist the sale of Indian products." In this connection the authors of the Report feel that Indo-American trade could be promoted if Indian commodities were pushed by appropriate publicity and propaganda and if Indian businessmen were to visit that country more frequently and were to make personal contact with actual or potential buyers.*

In considering the future prospects of Indo-American trade we must take into account not only the present difficulties of transport but also the nature of the goods constituting this trade and the post-war economic policy of India. Recently, India has been sending to the U.S.A. huge amounts of raw jute and jute manufactures, mica and manganese, lac and goat skins. In the post-war period, however, when India must inevitably embark upon a policy of industrialisation, the nature of Indo-American trade may undergo important changes. Imports of American capital goods in the form of plant and machinery are likely to increase and the export of raw materials may be replaced by manufactures which may be expected to scale over the American tariff wall if they are so designed as to satisfy the sense of fancy and novelty of the American consumers. In order to express the mutual appreciation of developing Indo-American trade and placing it on a more permanent basis, the Government of India should consider very carefully the recent suggestion made by Sir Purushottamdas Thakurdas, as President of the Imperial Citizenship Association, that we should establish direct trade relations with the U.S.A. on the basis of a trade Agreement. The present is indeed an opportune time for concluding such an Agreement to the benefit of both the countries.

* See *Gregory-Meek Report*—page 39.

3. INDO-JAPANESE TRADE

Probably next to the U.S.A., Japan occupies a leading position among the non-Empire countries having trading relations with India. The chief articles of imports are cotton manufactures, artificial silk, wool manufactures, silk manufactures, glass and glassware, hardware, paper and pasteboard, rubber manufactures, electrical instruments and apparatus, machinery and millwork, earthenware and porcelain, toys, and requisites for games and sports, stationery and paints and painter's materials. Japan is the leading supplier of cotton piecegoods to India in normal times and has gradually displaced the U.K. in this respect. The chief articles of export are raw cotton, pig iron, manganese ore, jute (raw and manufactured), mica, shellac, and castor seed. The main features of our trade with Japan are an unfavourable balance of trade, exports of raw materials particularly raw cotton and import of manufactures, particularly cotton manufactures, the existence of Japanese shipping, banking and other trade services, dumping, the existence of a trade Agreement and, after the entry of Japan into the war, a stoppage of our trade with Japan. The following table gives the value of imports from and exports to Japan:—

INDO-JAPANESE TRADE

+ Favourable.
− Unfavourable.
(in crores of Rs.)

Year	Imports	Exports	Balance of Trade.
1938-39	15	15	...
1939-40	19	14	− 5
1940-41	22	9	−13
1941-42	12	5	− 7
1942-43	3	...	− 3

From the above table it is evident that after the outbreak of the present war, although our exports to Japan declined steadily from Rs. 15 crores in 1938-39 to barely Rs. 5 crores in 1941-42, she continued to send increasing quantities of manufactures to us during the same period, Imports from Japan rose from about Rs. 15 crores in 1938-39 to about Rs. 22 crores in 1940-41 after which they declined to Rs. 12 crores in the following year. The enormous rise was shared mostly by imports of cotton manufactures, artificial silk, jewellery and cotton yarn. Our exports of hides and skins to Japan however declined mainly owing to its inferior quality. Immediately after the outbreak of the war, Indian merchants had begun to explore the possibilities of Indo-Japanese trade with particular reference to the ability of Japan to supply machinery and millwork to India to replace the stoppage of European supplies. The Indian Trade Commissioner at Osaka received many enquiries for Japanese machinery particularly for *Zipp* fasteners, tape looms, knitting machines and needles, printing type, pulp, paper etc. In 1940 Japan expressed her desire to revise her trade Agreement with India so as to reduce her offtake of Indian raw cotton and increase India's offtake of Japanese cotton piecegoods. The non-official advisers to the Government of India however made recommendations contrary to the Japanese proposals and the whole question of treaty revision with Japan has been dropped after her entry into the present war.

Future :—

With post war industrialisation in India, the texture of Indo-Japanese trade is likely to be changed consi-

derably. India's natural desire to conserve her raw materials and become less dependent upon foreign manufactures combined with Japan's desire to become less dependent on a single country for the provision of essential raw materials like cotton, Indo-Japanese trade may suffer considerable diminution in the years following the present war. Japan can however supply us machinery and millwork in huge quantities particularly in view of her ability to compete successfully with other suppliers like the U. K. and the U. S. A. Japan, like England, may also rely in the post-war period upon the export of technical skill and trade services to India.

INDO-GERMAN TRADE

Before the outbreak of the present war, Germany showed great promise as a participant in India's foreign trade. The chief articles imported from Germany were: dyes, iron and steel, hardware, machinery and millwork, glass and glassware, liquors, paper and paste-board, woollen manufactures, cotton manufactures, blankets and artificial silk manufactures. The chief articles exported to Germany were: raw Jute, wheat, raw cotton, seeds, raw hides and skins, lac, coir manufactures, bones and raw hemp. The main features of our trade with Germany were, export of raw materials particularly raw cotton, raw jute and seeds and import of manufactures particularly machinery and millwork and woollen manufactures; an unfavourable balance of trade, exchange control in Germany and the existence of German trade services in India. Trade with Germany has practically stopped as a result of the present hostilities.

Future :—

In the post-war period Germany may be called upon to send enormous quantities of machinery to India and also to make available to us the services of her technical and other experts. If Germany's present policy of economic nationalism is continued, she will naturally reduce her purchases of Indian raw materials; although for some commodities like jute, lac and oil-seeds, she will continue to depend upon Indian supplies.

CHAPTER XIV

RECENT DEVELOPMENTS OF INDIAN TRADE

THE outbreak of the present war has brought into bold relief the fundamental aspects of India's economic life in general and her foreign trade in particular. A critical examination of the various developments in India's war-time trade will enable us to estimate the various opportunities which the war has opened up before India and the extent to which she has availed herself of these opportunities with a view to the post-war reconstruction of her economic structure. To facilitate this, we have to analyse pre-war tendencies in India's foreign trade and then examine how far these tendencies were either stimulated or retarded by the out-break of the war. The study of the recent developments of the Indian trade may therefore be undertaken under the following convenient heads:—

1. Pre-war Period (1935-39)
2. War Period (1939-43)

1. PRE-WAR PERIOD

We have already reviewed in Chap. II the developments of India's foreign trade till the end of 1934-35

which marked the termination of disastrous economic depression which had characterised world economy during the preceding few years. The year 1935-36 marked the beginning of a period of recession and this had encouraging effects upon the position of India's foreign trade. The period of recovery was marked by an enhanced demand for Indian raw materials in the industrialised countries of the west and this led to an improvement in India's balance of trade in merchandise as can be seen from the following table:*—

BALANCE OF TRADE IN MERCHANDISE

(in crores of Rupees)

1934—35	23
1935—36	31
1936—37	78

Thus the favourable balance of trade in merchandise rose from Rs. 23 crores to as much as Rs. 31 crores and Rs. 78 crores in 1935-36 and 1936-37 respectively. The prosperity in the export trade was shared by almost all commodities constituting a bulk of India's export of war materials such as raw jute, raw cotton, raw hides and skins, and oilseeds. The export of jute manufactures and raw cotton reached the highest level since the beginning of the depression. On the import side, many principal commodities such as cotton piece-goods, sugar, iron and steel manufactures with the exception of machinery of all kinds, provisions and oilman's stores recorded considerable decreases. The rising trend of imports of machinery was an indication of the beginning of a period of gradual and increasing

* From: The Reserve Bank's Report on Currency & Finance for 1935-36 and 1936-37—page 9.

industrialisation within the country to take advantage of the on-coming recession.

The year 1936-37 is the most noteworthy year of this pre-war period, in view of the fact that the exports reached the peak figure of Rs. 202 crores after which they began to decline till the end of this period. The favourable balance of trade reached the enormous figure of Rs. 74 crores. Another statisfactory feature of this year was the increase of 17% in the value of exported articles and an appreciable rise in the prices of agricultural commodities with the exception of raw cotton and jute which suffered a considerable decline. Another important feature of India's trade during this year was the revival, after 5 years, of silver imports amounting to Rs. 14 crores. The next noteworthy characteristic was the decline of Rs. 9 crores in the imports of merchandise into India. This combined with the rising imports of machinery gave a proof of the undertaking of increasing industrial activity within the country. During this year India began to share with other countries the general progress towards economic recovery. The *Times of India* commenting upon this recovery wrote: "Although in both spheres (economic and financial) anxiety has been temporarily allayed ......it would be premature to assume that an uninterrupted recovery is now assured......In brief, recovery in nearly all countries, is checked and circumscribed by the hydro-headed monster of political unsettlement, to a greater extent than by all other factors combined. Great Britain, to a greater degree than most countries, remains united and prosperous, but elsewhere the picture is less favourable."*

The gradual rise of world prices gave an unmis-

* *Times of India* 13th November 1937.

takable indication of the fact that devastating storm of the economic depression had passed by and the peaceful rumblings of the forthcoming economic recessation. The rise of prices was attributable to a depletion of stocks of primary commodities since 1934, restriction of production by voluntary schemes, the devaluation of gold and heavy armaments expenditure by many countries. India's foreign trade derived considerable advantages from this rise of agricultural prices.

The year 1937-38 marks the beginning of the recessation period mentioned above. But by the end of the year there was a sudden decline of prices owing to curtailment of bank credit leading to reduced speculation, the anxiety regarding the possible shortage of raw materials and gold in the United States, and the relaxation of the restriction schemes. If there was any factor which hastened the end of the recession, it was the general and the wide-spread feeling of uncertainty and anxiety resulting from the prospects of a world war which were looming broad and large on the political and economic horizon. The consequence of these developments was a sudden decline in the prices of agricultural commodities. The foreign trade of India therefore suffered a particularly severe damage as can be seen from the relevant statistics of trade. The total value of merchandise exported from India and Burma during this year declined to Rs. 199.61 crores from Rs. 200.79 crores in the preceding year. This decline can be understood in the light of reduced exports to Japan, one of India's principal customers owing to her occupation with military operations in China. Thus the total value of cotton (raw and waste) exports declined to Rs. 30.64 crores during

this year as compared with Rs. 45.17 crores during the preceding one. The decline in the cotton exports had a stimulating effect upon the exports of raw jute and jute manufactures which rose to Rs. 43.80 crores during this year from Rs. 42.72 crores in the preceding one. The exports of tea recorded a similar rise mainly owing to the tea restriction scheme. Exports of hides and skins also increased although exports of oilseeds recorded heavy fall of Rs. 4 crores.

Although the exports decrease as noted above, the imports continued to increase owing to an inevitable lag of this kind in the foreign trade of India which consists primarily of the exports of raw materials which are very sensitive to world prices and imports of manufactures which continue to be imported because they are ordered during a time of prosperity. The increase was shared most by the imports of raw cotton owing to, increased activity of the Indian cotton mill industry and also by the imports of metals, machinery and motor vehicles.

The most outstanding development at the beginning of this year was the separation of Burma from India with effect from 1st April 1937. In spite of this separation, India and Burma (Trade Regulation) Order, 1937, provided for free trade between the two countriei for a period of three years from the date of separation.

The year 1938-39 attracted public attention towards some important developments in international trade, that had been taking place during the preceding few years and gave rise to considerable amount of anxiety and nervousness. These developments were the general drive towards economic nationalism, exchange control, bilateralism, clearing, payments and compensation agreements and a considerable reduction in

the quantum of international trade. These trends exercised great influence upon the foreign trade of India.

The value of the total foreign trade in merchandise of India and Burma declined by 12.3% from Rs. 362.15 crores in 1937-38 to Rs. 317.51 crores in 1938-39. The balance of trade in merchandise however remained practically unchanged at Rs. 43 crores owing to a relatively larger decline in imports which dropped by 14% from Rs. 159.45 crores to Rs. 137.24 crores, while exports fell by only 11% from Rs. 202.70 crores to Rs. 180.27 crores. The exports of tea, tobacco and oilseeds rose considerably during this year as compared with those of the preceding one. The exports of raw hides and skins however recorded a very sharp decline of about 25% during the same period. The decline of exports is explained by a general contraction of world trade, a slump in the world market for agricultural produce and a heavy decline in Japan's offtake of Indian raw cotton. Japan reduced her purchases of Indian cotton by about 53% in quantity and about 64% in value during the year although the deficiency was slightly made up by increased exports to the U.K. and Germany.

DIRECTION OF TRADE

In regard to the direction of trade, the important tendencies in this pre-war year were the predominance of the U.K. and the U.S.A. in the export trade and that of Japan and Germany in the import trade, and a decline in the total amount of Indian trade with the British Empire. Total exports to countries within the British Empire declined by about 9% whilst imports from them increased by 7%.

COMPOSITION OF TRADE

As regards the composition of trade, the pre-war trends may be studied from the following table :—*

PRE-WAR COMPOSITION OF TRADE

(in crores of Rs.)

		1935-36 Imp.	1935-36 Exp.	1936-37 Imp.	1936-37 Exp.	1937-38 Imp.	1937-38 Exp.	1938-39 Imp.	1938-39 Exp.
I.	Food, Drink & Tobacco	13	37	11	40	22	41	24	39
II.	Raw materials & produce & articles mainly unmanufactured	19	79	19	103	41	81	33	73
III.	Articles wholly or mainly manufactured	99	42	92	50	108	55	93	48

From the above table some important conclusions can be drawn. The imports of raw materials went up sharply from Rs. 19 crores in 1935-36 to Rs. 41 crores in 1937-38 although they declined to Rs. 33 crores just before the outbreak of the war. The exports of raw materials on the other hand declined from Rs. 79 crores at the beginning of this period to Rs. 73 crores just before the present war. The imports of manufactures recorded a similar decline of Rs. 6 crores from Rs. 99 crores in 1935-36 to Rs 93 crores in 1938-39 whilst the exports of manufactures correspondingly rose by Rs. 6 crores, from Rs. 42 crores to Rs. 48 crores during the same period. The rise in the imports and the fall in the exports of raw materials combined with a decrease in the imports and an increase in the exports of manufactures may be regarded as a happy

* From the *Annual Statement of the Sea Borne Trade of British India* 1941, Vol. I.

indication of the gradual industrialisation that is taking place within the country.

BALANCE OF TRADE

The pre-war trends in the balance of India's trade may be studied from the following table :—*

BALANCE OF TRADE

+ Favourable.
– Unfavourable.
(in crores of Rupees)

	1935-36	1936-37	1937-38	1938-39
I. Total Imports of Merchandise	137	128	177	156
II. Total Exports of Merchandise	165	202	190	170
III. Net Balance of Trade	+ 28	+ 74	+ 13	+ 14

From the above table it is evident that there was a clear declining tendency in India's favourable balance of trade which declined from Rs. 28 crores in 1935-36 to Rs. 14 crores in 1938-39 with a sudden rise to Rs. 74 crores in 1936-37 for reasons already explained.

SUMMARY

Before we proceed to study the war-time trends in India's foreign trade we may summarise the pre-war tendencies noted above as follows :—

1. An initial rise of export prices leading to enhanced exports and subsequent slump in export trade resulting from a sharp decline of the prices of agricultural commodities in the world markets.

2. Increasing industrial activity within the country

* *Ibid.*

indicated by a decline in the exports of raw materials and in the imports of foreign manufactures.

3. Slump in raw cotton and oilseeds trades.

4. Prosperity in jute, tea and cotton piecegoods trades.

5. Declining trade with the British Empire.

6. Increase of imports from Japan and Germany.

7. Declining favourable balance of trade.

WAR PERIOD (1939-43)

The outbreak of war in September 1939 has brought about many significant changes in India's foreign trade. India's trade has been gradually channelised into war purposes as part of the general shift of Indian economic life from a peace economy to a war economy during the last four years. Some writers are jubilant over the effects of war upon Indian trade whilst others are sceptical particularly in regard to its permanent character. We shall therefore undertake in the following pages a brief examination of the manner in which India's foreign trade has been influenced by the outbreak of the present world conflict The broad analysis of India's foreign trade during the last four years may be conveniently studied under the following heads:—

1. Balance of Trade
2. Composition of Trade
3. Direction of Trade

1. BALANCE OF TRADE

The following table gives the changes in the value of India's balance of trade during the period under review:—

BALANCE OF TRADE

\+ Favourable.
— Unfavourable.
(In crores of Rupees)

Year	1938-39	1939-40	1940-41	1941-42	1942-43
Exports	162.78	203.92	186.90	237.20	187.60
Imports	152.33	165.29	156.97	173.30	110.45
Net Balance	+ 10.45	+88.63	+29.93	+63.90	+77.15

From the above table it is evident that immediately after the outbreak of war, the previous tendency for exports to increase continued with stimulating effect upon the balance of trade which rose from Rs. 10.45 crores in 1938-39 to Rs. 138.63 crores in 1939-40 in favour of India, *i.e.* the favourable balance of trade amounted to more than four times the balance in 1938-39. It is true that the year immediately preceding the war was one of a depressing outlook resulting from the war preparedness on the part of some Continental countries characterised by economic nationalism This depressing outlook continued during the first half of 1939-40 after which however the value of India's foreign trade witnessed a considerable rise. The prosperity in trade was shared more by exports than imports as can be seen from the above table. During the first two months of the war, however, India's foreign trade suffered a setback probably owing to adjustments of trade conditions to the requirements of the war. Later on, however, towards the end of the year, there was great improvement mainly owing to the demand for raw materials to assist the war preparations of some of the leading countries particularly the U. K.

Exports jumped from about Rs. 163 crores in 1938-39 to about Rs. 204 crores in 1939-40. The

anxiety of the merchants to provide themselves with adequate stocks against the exigencies of the war situation can be seen in the rise in the value of imports which increased from about Rs. 152 crores in 1938-39 to about Rs. 165 crores in 1939-40.

In 1940-41 however the balance of trade declined to about Rs. 30 crores from about Rs. 39 crores in the preceding year mainly owing to the war-time restrictions upon trade, export and import control, exchange control, transport risks, the higher freight and insurance cost and above all the acute shortage of shipping space. The export trade suffered a severe setback owing to the capitulation of France, the war-time disruption of English economic life and British shipping which was preoccupied in the Mediterranean. The gradual withdrawal of British vessels for war purposes made it difficult for the transport of even strategic materials to England.

The year 1941-42 marked the beginning of a boom in export and a considerable increase in the value of imports. Although the trade statistics do not record the quantities of merchandise and also the exports and imports for defence purposes, one can conclude that the tremendous rise in the value of trade, though mainly due to the sharp rise in the prices, must have been accompanied by a considerable increase in quantity also. The value of exports rose from about Rs. 187 crores in 1940-41 to the highest level of about Rs. 237 crores in 1941-42. The value of imports similarly rose from about Rs. 157 crores to about Rs. 173 crores during the same period. The favourable balance of trade consequently reached the very high level of about Rs. 64 crores during this year from about Rs. 30 crores in the preceding one. The factors ope-

rating in the direction of this improvement were the measures taken against German menace in the Atlantic, shifting of the war to the Middle East, and the outbreak of the Russo-German war which made India an important base for the supply of foodstuffs and strategic materials, both raw and manufactured, to the Middle East countries and Russia. This year marked a satisfactory adjustment of India's foreign trade to the war conditions and showed a remarkable resistance to the growing shortage of tonnage, the increasing freight and insurance rates and the tightening of trade restrictions. The fall of France, although it adversely affected our trade at the outset, proved to be a blessing in disguise because the Empire and Allied countries were compelled to transfer their purchases to India.

The sharp rise in the quantum and value of trade can be better understood in the light of huge exports of foodstuffs and an enormous rise of export and import prices, increased offtake by Empire and allied countries particularly the U.S.A., enormous trade in war materials for defence purposes, larger exports of manufactures particularly cotton piecegoods, exploitation of new markets to counteract the loss of Continental market and a certain amount of fillip given to a few Indian industries as a result of the war. India however has not been able to reap as much advantage as some other countries for her industries from the present war owing to the absence of basic industries. This year also witnessed a great improvement in India's balance of payments mainly owing to the steps taken by the Reserve Bank of India to repatriate India's sterling debt.

The entry of Japan into the war and the consequent disruption of international trade combined with the

growing shortage of tonnage had an adverse effect upon India's foreign trade. Although the quantum of exports increased by 6% that of imports declined by 9% during this year as compared with the previous one. The disastrous effect of the Japanese military operations in the Dutch East Indies and Burma, upon transport services and consequently upon our foreign trade can be seen in the precipitous decline both in exports and imports. The total value of exports in 1942-43 came down to about Rs. 188 crores as compared with about Rs. 237 crores in the preceding year. This can be explained by a sharp diminution in our trade with the U.S.A. due to the accentuated shortage of shipping space and the perils to which the Pacific Route was exposed.

2. COMPOSITION OF TRADE

The present war has brought about very significant changes in the composition of our foreign trade indicating not only the gradual alignment of our trade to the demands made upon it by war but also, of the changing character of the economic life within the country. The following table* gives the changes in the composition of India's imports and exports according to their main groups of classification during the last four years as compared with the pre-war year :

COMPOSITION OF TRADE

IMPORTS (In Crores of Rupees)

	1938-39		1939-40		1940-41		1941-42		1942-43	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Foodstuffs	24	16	35	21	24	15	28	16	8	7
Raw Materials	33	22	36	22	42	27	50	29	52	47
Mfd. Articles	93	61	92	56	90	57	94	54	49	45

* From the Resesrve Bank's Reports on Currency and Finance for 1941-42 and 1942-43.

EXPORTS †

(in crores of Rupees)

	1938–39		1939–40		1940–41		1941–42		1942–43	
Foodstuffs	39	23	41	19	42	21	60	24	49	25
Raw Materials	76	45	92	43	68	34	73	29	45	23
Mfd. articles	51	30	79	37	86	43	115	46	98	50

We have already noticed the indications of the increasing industrialisation within the country which were visible in the pre-war period. These stimulating tendencies were continued after the outbreak of the war as is evident from the above table. The rising imports of raw materials, the declining imports of manufactures, the rising exports of manufactures and the decline in the exports of raw materials are some of the outstanding developments disclosed by the above figures. The imports of raw materials rose from Rs. 33 crores in 1938-39 to as much as Rs. 52 crores in 1942-43. The total value of manufactured articles imported during the same period declined from Rs. 93 crores to Rs. 49 crores although for a major part of the period they exhibited a remarkable degree of stability mainly owing to the enormous rise in import prices. The decline in the value of manufactures can be explained by the preoccupation of the industrialised countries particularly the U.K. with war production and the insurmountable difficulties of transport. The most satisfactory and striking development is the enormous rise in the total value of the exports of manufactured articles and the conservation of raw materials within the borders of the country. From Rs. 76 crores in 1938-39 the exports of raw materials declined gradually to Rs. 45 crores in 1942-43 although in 1939-40 there

† These include Re-Exports.

was a sharp rise to Rs. 92 crores. This sharp rise may be explained by the non-interference with international communications by the war in its initial stages and the heavy demand for war production in the U. K. The total value of the export of manufactured articles rose from Rs. 51 crores in 1938-39 to the enormous figure of Rs. 115 crores in 1941-42 after which however they declined to Rs. 98 crores in 1942-43, owing to the subsequent developments in the war situation.

It is interesting to note that before the war the total value of the exports of raw materials exceeded that of manufactured articles and after the first year of the war the situation began to be reversed until at present the total value of manufactures far exceeds that of raw materials. This may be explained by the difficulty of transporting the raw materials abroad, the sharp rise in the export prices of manufactures, exploitation of new markets which being cut off from European and other sources of supply by the war came to be increasingly dependant upon India to satisfy their industrial requirements. The enormous boom in export trade was mostly shared by the cotton mill, tea, and jute industries. Although on first apperance the huge increase in the total value of exports might give rise to a certain amount of satisfaction, it may be noted that the exports of manufactures have taken place at the cost of the home market which has been consequently starved and also penalized by the enormous rise of the prices of manufactures within the country. Such penalization has been particularly severe in the case of foodstuffs whose exports steadily mounted up from Rs. 39 crores in 1938-39 to Rs. 60 crores in 1941-42 after which they declined to Rs. 49 crores in the next year. The precipitous fall in the imports of foodstuffs

EXPORTS †

(in crores of Rupees)

	1938–39		1939–40		1940–41		1941–42		1942–43	
Foodstuffs	39	23	41	19	42	21	60	24	49	25
Raw Materials	76	45	92	43	68	34	73	29	45	23
Mfd. articles	51	30	79	37	86	43	115	46	98	50

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from Rs. 28 crores in 1941-42 to as low as Rs. 8 crores in 1942-43 may be explained by the cessation of imports of rice from Burma due to the shifting of military operations to that country.

Although as noted above our exports of manufactures have increased tremendously they have not however resulted in improving the terms of India's trade as can be seen from the following table.* The table gives the index numbers of the declared values of imports and exports.

TERMS OF INDIA'S TRADE

Base 1937-38=100.

Year	Unweighted Index of declared value per unit of Imports	Unweighted Index of declared value per unit of Exports	Index of unit value of imports ÷ Index of unit value of Exports
1939—40	71.50	65.75	109
1940—41	86.25	71.67	120
1941—42	104 92	84.83	124
1942—43 (7 months)	126.29	93.43	135

From the above table we see that the index of the unit imports has been greater than that of the exports which implies that we had to part with a greater amount of exports to import a given amount of foreign goods.

COMMODITY TRADE

A further analysis of the composition of our wartime trade can only be undertaken with reference to

* From Dr. V. K. R. V. Rao,—*War and Indian Economy*, (Allahabad, 1943),—page 33.

the various commodities constituting the main groups of exports and imports.

COMMODITY TRADE

IMPORTS (in crores of Rupees)

	1938–39	1939–40	1940–41	1941–42	1942–43
Grain pulses and flour	14	22	14	15	00.31
Sugar	00.46	3	00.36	1	00.02
Oils—vegetable, mineral and animal	16	17	21	22	28
Cotton—raw and waste	9	8	9	15	15
Wool—raw	0.62	0.75	3	3	3
Dyes & Colours	4	5	6	7	5
Machinery	20	15	12	14	11
Cotton—yarn and mfrs.	14	14	11	7	1
Chemicals, drugs and medicines	6	8	8	9	6

EXPORTS (including re-exports)

Grain pulses and flour	8	5	6	11	7
Tea	23	26	28	30	32
Oils—vegetable mineral and animal	1	1	2	3	1
Seeds	15	12	10	11	11
Cotton—raw and waste	25	31	25	18	6
Jute	13	20	8	10	9
Hides and skins	5	8	6	6	5
Metals	2	4	5	4	2
Cotton, yarn and Mfrs.	8	9	18	38	47
Jute mfgrs.	26	49	45	54	36

Analysing the import table above, we notice that the imports of grain pulses and flour received a stimulus during the first year of the war. Subsequently however the imports fell off as a tesult of better production at home, whilst the heavy fall during this year is explained by the stoppage of imports of rice from Burma, resulting from the spread of war to that country. The imports of sugar began to increase and thus gave an indication of the difficulties which the Indian sugar industry had to face after the outbreak of war. Subsequently however with over-production of sugar the imports of sugar dwindled from Rs. 3 crores in 1939-40 to barely Rs. 2 lacks in 1942-43. The imports of oil have been steadily rising from Rs. 16 crores in 1938-39 and reached Rs. 28 crores in 1942-43. This may be ascribed to the industrial activity within the country and the consequent huge imports of mineral oils from Persia which assumed particularly enormous proportion after the stoppage of mineral oil imports from Burma. The increasing trend of raw and waste cotton, raw wool and cotton yarn indicates the development of the respective indigenous industry. Since the 24th March 1943 the Government of India have instituted control over the imports of the Egyptian, Sudanese, and South African cotton. The imports of machinery have been exhibiting a declining tendency since from Rs. 20 crores in 1938-39 they fell to Rs. 11 crores in 1942-43. This may be explained by the difficulties of transport, the preoccupation of our suppliers with war production and the severe trade restrictions imposed by Government. Some critics interpret the declining trend of the imports of machinery and mill-work as a proof of the fact that the war stimulus has been restricted only to certain war industries and

not to Indian industrialisation as a whole. If there is any industry which has received the greatest fillip owing to war it is the Indian textile industry which was called upon to undertake enormous production for civil and military purposes. The imports of cotton manufactures have suffered a very heavy decline from Rs. 14 crores in 1938-39 to Rs. 1 crore in 1942-43 mainly owing to the preoccupation of the U.K. and Japan, our principal suppliers with the war, and the shortage of freight. The progress made by the Indian chemical Industry under the stimulus of war production can be seen in the increased imports of chemicals. The imports of vehicles also rose appreciably on account of the army demand for transport. Metals and ores also recorded a considerable rise thus indicating the increased war production within the country.

Analysing the export table we notice some important trends in India's export trade as influenced by the effects of the war. The rising trend of the exports of grain, pulses and flour may be explained by the heavy foreign demand and the rise of prices. The Indian tea industry has benefited most from the war as can be seen from the table. Exports of tea rose from Rs. 23 crores to Rs. 39 crores in 1941-42 although during this year they declined to Rs. 32 crores. The rise may be explained by the enhancement in the quota, increase in price and the enormous demand in the U.K., whilst the fall may be understood in the light of the difficulties of transport. The enormous progress made by the Indian Cotton Mill industry is reflected in the reduced exports of raw cotton from Rs. 25 crores in 1938-39 to Rs. 6 crores in 1942-43 with an exceptional rise to Rs. 31 crores in 1939-40 which may be explained by the uncertainties relating

to the American cotton subsidy. The loss of the Japanese market should also be taken into consideration in this connection. Although the exports of raw jute have steadily declined, the jute manufacturing industry has been characterised by exceptional prosperity owing to the heavy war demands in the U.S.A. and the Allied countries. The export of jute manufactures consequently rose from Rs. 26 crores in 1938-39 to Rs. 54 crores in 1941-42 after which they declined to Rs. 36 crores in 1942-43. The development of the indegenous leather industry can be seen from the steadiness of the exports of hides and skins.

The general conclusion that may be drawn from the above analysis is that whilst the present war has stimulated the Indian textile industries, increased some exports like tea and some imports like the oils, the beneficial effects are not spread over as wide a field as to justify the initial anticipations. It is of course too early to pass a final verdict on the effects of war on India's foreign trade and industries in particular because the judgment must necessarily be influenced by the signs of prosperity or adversity disclosed by these important aspects of India's economic life in the post war Period.

3. DIRECTION OF TRADE

The present war has resulted in directing India's foreign trade in new and interesting directions. In the preceding chapter we have had an occasion to analyse the important recent trends in the geographical distribution of India's foreign trade.

The following table* gives the war time direction

* From the Reserve Bank's Reports on Currency and Finance for 1941-42 and 1942-43.

of India's trade with Empire and non-Empire countries :—

DIRECTION OF TRADE

(in crores of Rs.)

	1938-39		1939-40		1940-41		1941-42		1942-43	
	Ex.	Imp.	Ex.	Imp.	Ex.	Imp.	Ex.	Imp.	Ex.	Imp.
Br. Empire	85	89	114	93	117	90	149	106	126	61
Foreign Countries	77	64	90	73	70	67	88	68	62	49

From the above table we see that there has been a progressive increase in the importance of the Empire countries in the foreign trade of India. Although there was initial damage sustained in the form of the loss of the Continental markets, the increasing offtake by the Empire countries has offered considerable compensation for the same. This was a result of the heavy war demand by Empire countries for India's produce and their anxiety to fill up the gap created in the Indian market by the decreasing importance of the U. K. Amongst the Empire countries Burma, Ceylon, and Australia increased their shares in India's foreign trade. We sent increasing quantities of food grains to Ceylon in return for rubber and copra, of cotton piecegoods to Australia in return for wheat and of cotton pircegoods to Burma in return for rice. Malaya, Hongkong, New Zealand also participated to an increasing extent in India's foreign trade. India has also been sending increasing quantities of cotton piecegoods to South Africa.

Amongst the non-Empire countries, the increasing importance of the U.S.A., will be one of the most out-

standing developments in India's trade. In spite of this however, the U. K. countries to hold the leading position in India's foreign trade. The recent Japanese military operations have resulted in the loss of Burmese, Australian and the Dutch East Indies markets.

TRADE IN THIS WAR AND THE LAST

Before we conclude our analysis of the various developments in India's foreign trade that we have taken place during the last four years, it will be interesting to undertake a comparison of the trade situation in the last world war and the present one. The following table compares the position of imports and exports during the two wars under reference.

(in crores of Rupees)

Year	Export (including re-exports)	Imports	Total	Balance of trade
1938-39	169	152	321	+ 17
1940-41	199	157	356	+ 42
1941-42	253	173	426	+ 80
1942-43	194	110	304	+ 84
1913-14	249	183	432	+ 66
1915-16	197	132	329	+ 65
1916-17	245	150	395	+ 95
1917-18	243	150	393	+ 93

It will be noticed from the above table that the effects of the present war upon India's trade were different from those of the last. In 1914-15 the immediate effect of the war was to reduce both exports and imports and this had a disastrous effect upon the balance of trade. Subsequently however exports improved but imports continued to decline and the resulting

favourable balance of trade had led to the sharp appreciation of the rupee in terms of sterling at that time.

The immediate effect of the present war was, however, a considerable stimulus to exports and a slight improvement in imports which resulted in increasing favourable balance of trade. This development would appear to be particularly significant when it is noted that the shortage of freight and the administration of trade restrictions have been more severe in this war than in the last. Furthermore, the alignment of Japan during this war has made an enormous difference in the position of India's foreign trade. As regards the direction, the Empire countries have assumed greater importance in India's foreign trade during this war than in the last. The most noteworthy feature of this war has been the tremendous rise in the value of exports of manufactures from India.

A comparison between the trade developments during the two wars constitutes an interesting subject for a separate study by itself and cannot be pursued further in this book owing to the limitation of space.

CHAPTER XV

GENERAL

I. BALANCE OF TRADE vs. BALANCE OF PAYMENTS

THE distinction between the balance of trade and the balance of payments is of great significance to a clear understanding of the various developments in international trade. The balance of trade refers to the difference between a country's exports and imports of merchandise and treasure. This is also known as the "visible" balance of trade. It is the magnitude of this net balance of trade which gives a status to a country in world trade. If the total value of the visible exports exceeds that of the visible imports, the country is said to have a favourable, active or export balance of trade. On the other hand, if the total value of the visible imports exceeds that of the exports, the country is said to have an unfavourable, passive or import balance of trade.

The balance of payments is the difference between the exports and imports, not only of merchandise and treasure, but also all the other transactions between two countries such as exchange of various services, loans, tributes and all other similar claims and obligations held by one country in the other. The balance of

international payments of a country consists of the payments made, within a stated period of time, between the residents of that country and those of foreign countries. In a statistical sense it is "an itemised account of transactions including all receipts from foreigners on the one hand and all payments to foreigners on the other."* The statistics relating to this balance of payments are collected by Government agencies in various countries and are annually recorded in the League of Nations' publication "Balances of Payments."

As long as the Gold Standard was functioning smoothly, with its correcting forces bringing about international equilibrium and as long as world trade was territorially much limited than to-day, the question of maintaining a strict scrutiny over the balance of payments did not arise. In recent years, however, the keen competition in world ttade and the growing tendency for economic nationalism have imposed a natural anxiety upon the countries to ensure that a proper balance in its international account is maintained. Under the Gold Standard a favourable balance did not give any long term or permanent economic advantage to a country because the Gold Standard corrected the situation in course of time by setting into motion counteracting factors. After the last war countries of the world realised that it was necessary to manage its balance of account because an adverse balance had undesirable repercussions upon its national economic life, e.g. an unfavourable exchange rate, external insolvency and the

* United States Bureau of Foreign and Domestic Commerce quoted by E. B. Dietrich *op. cit.*—page 21-22.

inability to liquidate foreign obligations etc.

INDIA'S BALANCE OF PAYMENTS

We have already seen that, although India has a favourable balance of trade, she has an unfavourable balance of payment. That is so because India has to pay huge amounts to foreign countries particularly England for various commercial and other services rendered to her. India's balance of payments consists of exports of merchandise and treasure, loans raised in foreign countries, remittances from foreigners, and the money spent by foreign tourists on the credit side, whilst imports of merchandise and treasure, interests on foreign loans, repayment of loans, remittance from India to foreign countries, profits of British banks and insurance companies, freight charges paid to British shipping companies, "Home Charges" and remittances to Indian students in foreign countries. India's invisible trade is carried on almost exclusively with England; most of the foreign exchange banks, shipping and insurance companies operating in India are British, and India is called upon to make huge annual payments to England for the services rendered to her by these institutions. The main items included in the "Home Charges" annually paid by India to England are: direct demands on revenue, railway revenue, irrigation, debt-services, civil administration, pensions and allowances, stationery and printing, military services currency and mint, civil works and some miscellaneous items.

For a critical examination of the various aspects of the concept of Balance of Payments read. Prof. M.A. Heilperin's *International Monetary Economics* (Geneva 1939) Chap. V.

II. DEPARTMENTS CONNECTED WITH INDIAN TRADE

1. THE DEPARTMENT OF COMMERCIAL INTELLIGENCE AND STATISTICS

This department was established in 1922 and embraces two distinct classes of work. (i) Collection and dissemination of information connected with overseas trade which may be of use to Indian firms and (ii) the compilation and publication of all-India statistics. From 1933, a Statistical Research Bureau has also been added to the department. Among the important publications for which the department is responsible, are the Review of the Trade of India, Statements of the Foreign Seaborne Trade and Navigation of British India, Statistical Abstract for British India; Agricultural Statistics, Estimates of Area and Yield of Principal crops, the Monthly Survey of Business Conditions in India and the Indian Customs Tariff. The department also publishes the Indian Trade Journal which gives valuable information regarding tariff changes in foreign countries which affect Indian interests, notices of tenders for Government contracts, crop reports and forecasts, Government orders, *communiques* and other notifications affecting trade, analysis of Indian trade statistics, market reports, trade enquiries, and the reports of the Indian Trade Commissioner abroad. The department also administers the Commercial Library and Reading Room located at No. 1. Council House Street, Calcutta. The department works in close co-operation with Directors of Industries and other Government departments in India, with the Indian Trade Commissioners abroad, with His Majesty's Trade Commissioner in India and

Dominions and with the Consular Officers in various parts of the world.

2. THE GEOLOGICAL SURVEY DEPARTMENT

This was established in 1851. The activities of the department are directed mainly to the completion of a geological map of India and to the collection and dissemination of information regarding the mineral resources of the country. The Director of the department gives expert advice with regard to the administration of the rules for the grant of prospecting licenses and mining leases and is consulted on all questions regarding the mineral policy of India. The department also carries out investigations on behalf of provincial Governments, the Army Department and local bodies on problems such as water supply, earthquakes, landslips etc. The publications of the department include 'Records', 'Memoirs', and *Palaeontologia Indica'*.

3. THE CUSTOMS DEPARTMENT

This department is controlled by the Central Board of Revenue which is attached to the Finance Department of the Goverment of India. This department administers the tariff policy of India through the Collectors of Customs of the five principal ports of Calcutta, Bombay, Madras, Rangoon and Karachi.

4. THE INDIAN STORES DEPARTMENT

This department is the outcome of the recommendations of the Stores Purchase Committee and was constituted in January 1922. Its main function is to purchase in India and abroad, in accordance with the Stores Purchase Rules, stores of all descriptions, except

lethal munitions, foodstuffs, medical stores, stationery and a few other classes of articles, for the departments of the Central Government and the minor local administrations, and to inspect stores purchased by the Department or by consuming departments direct. Its services are also available to such major local governments, Indian States, Public Bodies, etc. as may desire to avail themselves of the same. The department consists of the office of the Chief Controller of Stores, which is located at the Headquarters of the Government of India, purchase circles at Calcutta, Bombay and Karachi; a Test House at Calcutta and inspection agencies at Calcutta, Jamshedpur, Bombay, Madras, Cawnpore, Lahore and Karachi. The Headquarters office, under the direct charge of the Chief Controller of Stores, comprises of an Admininistration and Intelligence Branch, a Purchase Branch and an Inspection Branch. A new organisation known as the Industrial Intellgence and Research Bureu has been attached to the department recently as an experimental measure.*

III. INSURANCE IN TRADE

Insurance in general has a very important role to play in the complicated machinery of modern commerce. Before the Industrial Revolution and the coming into existence of large scale production, commerce was limited both in regard to its magnitude and extent. Consequently, the amount of risk was small and the need for insurance was not very keenly felt. Gradually, however, with the expansion of world commerce and also the adoption of the limited liability

* *See Handbook of Commercial Information of India—3rd edition, 1937, pages 14-27.*

principle, commercial men found it necessary to insure the business risks and others found it possible to undertake them in return for some payment.

Modern commercial activity presents a great many possibilities of risks arising before the commodity actually reaches the consumers, e.g. the nature of the goods may be such that they are likely to deteriorate, evaporate, and suffer a loss in quantity during transit. Then there are other risks such as the loss of goods by fire, accident, etc. The complex organisation of modern commerce involves also risks of price fluctuations. The manufacturer may find that during the time of manufacture the price has declined and he will have to sell his goods even at a loss. Insurance, therefore, aims at protecting businessmen from all these risks and liberates commercial activity from some of the obvious dangers with which it is generally associated to-day.

As trade has developed along more and more specialised lines, insurance has also assumed a greater specialised nature. Thus there are the following different forms of insurance.

1. MARINE INSURANCE

The object of this type of insurance is to safeguard the interests of exporters and importers in the event of a loss sustained by the goods during transit. It also protects the ship-owners from the loss or damage sustained by the ship. It is obvious that without the assumption of the marine risk by the underwriter, world commerce would involve heavy financial losses to businessmen. If the goods are not insured, the exporters and importers would be compelled to set aside a part of their capital against the eventuality of

the loss of the goods at sea. This conservation of capital implies loss of interest to the businessman because he is not in a position to invest elsewhere until the goods reach their destination and even then the limitations of individual capital to cover such huge risks should also be properly realised. Marine insurance, however, has made such idle conservation of capital unnecessary and has liberated it for more productive and profitable purposes.

Businessmen are always anxious to increase the magnitude of their trading operations to the utmost and at the same time to limit their liability and commitments to as short a period as possible. The role of marine insurance is to enable the businessmen to satisfy this two-fold object. Furthermore, marine insurance gives an indirect assurance to the bankers who grant discount advances to businessmen and thus facilitates the finance of world commerce. Thus marine insurance is the last link which completes the chain of international trade; the ship carries the goods, banks finance them, whilst marine insurance protects them. Ship-owners, bankers and marine insurers provide a channel along which world commerce flows smoothly. Marine insurance thus completes the triple alliance in all kinds of operations in the commerce of the world.

2. FIRE INSURANCE

Storage is one of the essential services in the process of marketing and goods have inevitably to be placed in warehouses for various reasons such as lack of transport facilities, unfavourable price fluctuations, lack of demand etc. The goods in warehouses are naturally exposed to a great many risks such as theft, fire and other forms of accidents of which fire is the

most important. The fire insurance policy safeguards the interests of the wholesaler or the warehouser against any loss of the goods by fire. In the absense of fire insurance, businessmen would have been put to incalculable financial loss which would in some cases have resulted in stopping of the business operations.

3. ACCIDENT INSURANCE

The mechanization of modern commerce has considerably increased the possibilities of delays in distribution to consumers due to accidents *e.g.* the motor vehicles used for distribution of goods are likely to meet with accidents and under these circumstances the insurance company agrees to indemnify the wholesaler or the retailer for such losses.

IV. TRADE ORGANISATION

The establishment of a systematic and wide spread commercial organization has been found to be indispensable for the development of a country's foreign trade. Such an organisation might assume two forms: 1. Private Organization such as Chambers of Commerce and Trade Associations, and 2. Official Organizations such as Government departments, Trade Commissioners and consuls appointed in various countries *e.g.* the interests of Indian foreign trade are promoted by the Department of Commercial Intelligence and Statistics together with the Indian Trade Commissioners in important world trading centres such as London, New York, Osaka, Milan, Hamburg and other places. They carry on investigations with a view to exploring new avenues for the expansion of India's trade and issue periodical reports giving valuable trade information. Similar functions are

discharged in England by the Board of Trade and in America by the United States Bureau of Foreign and Domestic Commerce. In fact, every important country in the world has trade organizations of some kind or the other.

The last world trade depression emphasized the great importance of such trade organizations whilst the subsequent need to promote trade relationships amongst countries belonging to the British Empire has led to a close-knit trade organization within the British Empire through the medium of institutions like the British Department of Overseas Trade, the British Commercial Diplomatic Service and the British Trade Commissioners, Trade Correspondents, and Consular Officers. This tendency for Empire Trade Organization has received great stimulus after the outbreak of the present war and has resulted in the appointment of various official and unofficial bodies such as Purchase Missions, Trade Missions, the British Ministry of Food Supply, the United Kingdom Commercial Corporation and the Export Advisory Councils and Committees in the important ports in India. Of all these, the U. K. C. C. is the most important and has invited the greatest attention and the most severe criticism. It is therefore proposed to examine the functions of this Corporation along with the various trade commissioner services in India, after which we may pass on to study the private trade organizations like chambers of commerce and trade associations.

TRADE COMMISSIONER SERVICES IN INDIA

British Trade Commissioner Service :—

The British Trade Commissioners in India are part

of the worldwide commercial intelligence organization of the British Government. The headquarters of this organizations are the Department of Overseas Trade in London which was created in 1917 with a view to stimulating the overseas trade of the U.K. The functions of the British Trade Commissioner are, to collect trade information useful to British merchants, to visit important commercial centres, to issue an annual report on the conditions and prospects of British trade and to give all assistance to British firms within his territory.

The present Senior British Trade Commissioner in India is Sir Thomas M. Ainscough, C. B. E., whose officers are situated in Calcutta.

In addition to the above, the other Trade Commissioner Services in India are those of the Canadian Commercial Intelligence Service, the Australian Government Trade Commissioner Service and the Ceylon Trade Commissioner for India.

THE U. K. C. C.

This Corporation was established in London in 1940 with capital entirely provided by the British Treasury, with the object of promoting England's trade with the Balkan and Near East countries. But the difficulties of trade with those countries which arose as a result of the subsequent developments in the war have compelled the Corporation to divert its attention to trading possibilities with countries like India, Iraq, and Arabia. The Corporation has behind it the full support of the British Government and the Government of India and is assisted by the British Ministries of Food and War Transport. The Corporation enjoys many privileges in regard to priorities, freight, shipping,

space, and many other things not available to Indian merchants. It makes huge purchases of goods like wheat, sugar, rice, hides, skins and others through the Supply Department of the Government of India and despatches them to Middle and Near East Countries and also to Russia.

The Corporation has been severely criticised by Indians on the grounds that it enjoys almost monopolistic privileges in India's export trade; that its privileged position enables it to secure priorities in railway and steamer freight and that it purchases goods at specially low prices, through the Supply Department and exports them to Middle East Countries, thus offering unfair competition to Indian exporters and making huge profits which are not retained within the borders of India. The Government of India have, however, clarified the functions and the scope of the Corporation's works by a press-note which it issued last year. Government have pointed out that the Corporation has been brought into existence not for monopolising trade, but for organising it on a basis more favourable to the Allied Countries, because such operations lie beyond the normal trading sphere of private enterprise. It has also been stated that the popular belief regarding the Corporation's monopoly in wheat, sugar, rice, oils, and oilseeds and cotton yarn is unfounded and that the Corporation has trading monopoly only in a limited number of commodities essential for war purposes. Furthermore, it has been asserted that the Corporation makes purchases in the open market, thus passing on the benefit to firms of businessmen of well-established reputation in India.*

* See *Capital* dated 6th August 1942.

Some critics express the view that India can have no quarrel with an organisation like the U.K.C.C., but the way in which it has been functioning, it has raised matters of fundamental importance to India both to-day in war and to-morrow in the post-war period.*

CHAMBERS OF COMMERCE & TRADE ASSOCIATIONS

These institutions also form an important part of the trade organization of a country. They are of incalculable importance not only to the economic life of the country in general, but also, to the commercial operations of the individual businessmen in particular. It is therefore proposed to examine the constitution and functions of a few leading Chambers of Commerce and Trade Associations in Bombay as typical of the general character of such bodies elsewhere.

1. BOMBAY CHAMBER OF COMMERCE

This was established in 1836 under the auspices of Sir Robert Grant, the then Governor of the Presidency. The Chamber is composed exclusively of non-Indian businessmen in India and seeks to safeguard their interests by bringing about organization and common feeling amongst them. The Memorandum and Articles of Association of the Chamber set forth the various aims and objects such as to encourage friendly feeling and unanimity among commercial men on all subjects involving common good; to promote and protect the general mercantile interests of this country; to collect and classify information on all matters of general commercial interest etc. Membership to the Chamber is by ballot and is open to any businessman desirous of joining the Chamber. The affairs of the

* The *Eastern Economics*—25th June 1943.

Chamber are conducted by a President, vice-President, a Committee, Secretary and Assistant Secretary.

The Chamber has got representation on various public bodies such as the Central Assembly, Council of State, the Bombay Port Trust, the Bombay Municipal Corporation, the Railway Rates Advisory Committee and many others.

SPECIAL WORK

The Chamber performs the important functions of undertaking arbitration in commercial disputes. It has special statistical department which complies valuable statistics relating to Indian trade. The Chamber also publishes a Daily Arrival Return, a Daily Trade Return and import and export manifest, a *Monthly Return* and *Current Quotations* relating to the trade of Bombay. The Chamber has also a measurement Department, which entrusted with the work of measuring the packages for export. The Offices of the Chamber are situated on Ballard Estate, Bombay.

2. INDIAN MERCHANTS' CHAMBER

This was established in 1907 and its objects are almost similar to those of the Bombay Chamber with this difference that while the Bombay Chamber represents non-Indians, the Indian Chamber exclusively represents Indian merchants. Like the Bombay Chamber, the Indian Chamber has representation on important public bodies such as Central Assembly. Bombay Port Trust, Bombay Corporation, Railway Rates Advisory Committee, etc. This Chamber has been recently granted the right of measuring the export cargo in Bombay. The Offices of the Chamber are situated near the Churchgate Station, Bombay.

3. MAHARASHTRA CHAMBER OF COMMERCE

It was established in 1927 with the object of establishing friendly relations among merchants and factory owners of Maharashtra and to safeguard their interests. It has a President, a vice-President, and a Secretary. The Offices of the Chamber are situated near the Churchgate Station, Bombay.

TRADE ASSOCIATIONS

1. EAST INDIA COTTON ASSOCIATION

This was established in 1922 to provide and maintain suitable premises for a cotton exchange in the city of Bombay and elsewhere in India and to regulate admission to the same, to provide forms of contracts and to regulate contracts, to adjust by arbitration or otherwise disputes among cotton merchants, to establish and maintain a Clearing House, to regulate the export and import of cotton and generally to control, promote and regulate the cotton trade in Bombay and elsewhere in India. The offices of the Association are situated in a magnificent building on Kalbadevi in Bombay and it has also a fine exchange building at Sewri Cotton Depot.

2, BOMBAY MILL-OWNERS' ASSOCIATION

This was established in 1875 and its objects are as follows: to encourage friendly feeling and unanimity amongst mill-owners and users of steam, water, and/or electric power, on all subjects connected with their common good, to promote and protect the trade, commerce and manufactures of India in general and of the cotton trade in particular. The Association deals also with subjects connected with the individual

businesses of its members. The Association has representations on important public institutions such as the Central Assembly, Bombay Port Trust, Railway Advisory Committee, etc. The offices of the Association are situated in Churchgate Street. Bombay.

3 MILL-OWNERS' MUTUAL INSURANCE ASSOCIATION. LTD.

This was established in 1924 and its important functions are: (i) the mutual insurance of its members against liability arising from Workmen's Compensation Act, and (ii) the insurance of its members against loss or damage by fire, lightning etc. The affairs of the Association are under the control of a Board of Directors and all the members of the Mill-owners' Association are eligible for its membership.

4. GRAIN MERCHANTS' ASSOCIATION

The object of this Association is to promote the interests of the grain merchants and to put the grain and oilseeds trade on a sound footing. It is an influential body having a large membership. The offices are situated in Mandvi, Bombay.

5. THE BOMBAY PIECEGOODS NATIVE MERCHANTS' ASSOCIATION

The functions of this Association are similar to those of Trade Associations in general with particular reference to the piecegoods trade.

In addition to the above important Trade Associations there are many others such as those of rice merchants, silk merchants, sugar merchants, insurance companies, iron merchants, etc.

CHAPTER XVI

EPILOGUE

IN the foregoing pages we undertook comprehensive survey of the various aspects of India's trade. After reviewing briefly India's trade development, we examined the claim of intermediaries that participate in the entire structure of our trade. We also analysed the intricate mechanism of the finance of trade and the technique of the movement of goods from the inland places to port towns and from there to foreign ports. We then passed on to the enumeration of the present conditions and prospects of some of the important commodities entering our export and import trades. This brought us to a discussion of the various problems confronting our re-export, coastal and land-frontier trades and later on the operations of the foreign mercantile houses in India. The most important topic having the greatest bearing upon the progress and development of our trade was that of trade policy which we analysed in its fullest details with special reference to the policy of discriminating protection and Imperial Preference adopted by the Government of India. Finally, we dealt with the developments of our trade with special reference to the effect of the present war.

The important point to be examined now is the

future of our foreign trade. No retrospective study of trade can be either complete or of any practical value if it does not envisage the future progress and development of our foreign trade. It is with this end in view that an attempt will be made in the following few lines to estimate the directions in which such future developments of our trade may occur in the light of the possible lines along which the reconstruction of world trade might take place in the post war period.

We have already noticed in our introductory remarks the process of economic disintegration that was set into motion in the pre-war period and which may be regarded as having hastened the present world conflict. The future of Indian trade depends largely upon the post-war tendencies of these pre-war developments and the reorganisation of world trade on a more permanent basis. Furthermore, the possible changes in the political status of India, however remote they may appear at present, must also be given due weight in considering the future of our foreign trade. If India is in a position to frame her own commercial policy independently of the moral and political influence of other interested countries, there can be no two opinions in regard to the type of policy to be adopted so as to develop our trade along lines most beneficial to our economic life. We must force our country to reap the distinct advantages of nationalistic economic policies before we can allow her the indulgence to participate in utopian schemes of international reorganisation. India has already started some industries under the inevitable stimulus of the present war and it would be preposterous to expect her to close down these industries in the post-war period, when they may be faced with

serious competition from foreign manufactures.

The future of our trade must be undoubtedly guided by the economic ideal which India sets before herself in the post-war years. And there does not seem to be much dispute in regard to what this ideal should be. As emphasised in the foregoing pages, she must embark upon an uncompromising policy of intensive industrialisation in order to raise the standard of life of the people and pursue an appropriate trade policy without in the least being perturbed by the esteem or popularity of any particular set of economic doctrines dominating the minds of contemporary economists and statesmen. India has accumulated considerable amount of foreign exchange as a result of the huge war-time exports. These she must utilise in the post-war years to import plant and machinery essential for her economic plan. England must realise that "prosperity like peace is indivisible" and that she must permit a reasonable degree of freedom to India in the formulation of her commercial and industrial policy. As Sir Arthur Salter observes: "It would, I think, be wise for Great Britain to return to the earlier policy of complete equality of economic opportunity for all countries in the trade of non-self-governing colonies, and to bring these colonies under the Mandate system and render an account for the discharge of British Imperial responsibilities." *

There is yet another aspect of the problem to which we must here refer. And that is the relation between the rupee on the one hand and the sterling on the other. When the present trade restrictions on our trade are removed and it resumes its normal course,

* See Arthur Salter's *World Trade and its Future* (London 1936)—page 98.

the pegging of our exchange at 1 sh. 6 d. might prove to be embarassing for the development of our trade. In so far as our rupee continues to be tied to the apron-strings of the pound sterling, it will bring our economic life under the direct influence of the English economic life, as it has always done in the past, and make it only indirectly amenable to developments in world financial and commercial structure.

Let us however see what these possible developments in international trade are going to be. Before we anticipate these, let us see what has actually happened in world trade as a result of the present war. The financial exigencies of the war had led to enormous currency inflation in almost all the important countries of the world. Furthermore, the dislocation of the normal direction of world trade has resulted in some countries, particularly the U.S.A., possessing an enormous export surplus and a huge accumulation of foreign exchange. The main task of the post-war economic architects will be to ensure a stable unit of currency for the settlement of international accounts; to create confidence in the minds of the erstwhile combatants; to avoid the disastrous consequences of the present world-wide currency inflation whilst at the same time preventing national monetary policies from treading the still more disastrous field of deflation; to smoothen out the return of the various national structures from war-time to peace-time economy and above all to give an assurance to the present creditor countries having an export surplus that their war-time accumulations of foreign exchanges will not suffer a diminution of value in the post-war years.

An auspicious beginning has already been made by

the announcement of the British and American plans for the reorganisation and stabilisation of world currencies and thus to facilitate the resumption of world trade the years immediately following the present war.* Both the proposals in their fundamental approach to the problem may be regarded as starting from almost identical premises viz. to provide a stable unit currency for world trade and to prevent any country from accumulating unduly heavy claims against other countries as was the case after the last world war. Both the plans embody the institution of an international body in which the respective claims against the various countries will be settled just as in a clearing house of banks, in terms of an imaginary unit of currency called "Bancor" in the British and "Unitas" in the American proposal, having a specified gold content. The allotment of quotas of these units and the grant of overdraft facilities to the Member States of the Union might be expected to prevent the piling up of debit and credit balances as happened after the last world war and to bring about a reasonable degree of approximation in the two sides of a country's accounts of international payments. It will be seen that proposals constitute a generalisation of the essential principles of banking as they exist within the borders of a country. The proposals undoubtedly indicate that those making them have realised the blunders of the past and want to avoid them in the future. It is an apologetic appreciation of the incongruencies and impossibilities

* See *Proposals for an International Clearing Union*—and also the *United States Proposals for a United and Associated Nations Stabilisation Fund*—Government of India Publications (New Delhi 1943).

which confronted world trade after the last world war.

It is not the scope of this work to examine more critically these weighty proposals made by the great economists of the world. But it must be emphasised here that there has been nothing inherently wrong about all such innumerable schemes of world economic reconstruction forwarded by well-meaning authorities on the subject until the present day. It is the manner in which they are executed which has presented the greatest obstacle to their success in the past. And if the present proposals are to fulfil the sanguine hopes of their masters, the utmost care has to be exercised to ensure mutual trust and confidence and the absence of any suspicion that under the guise of high-sounding principles each country conceals an ulterior motive of furthering her economic welfare.

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